

**OFFICE OF AUDIT
ANNUAL PLAN
FOR FISCAL YEAR 2000**

October 1999



Office of Inspector General

United States Department of the Treasury

ASSISTANT INSPECTOR GENERAL FOR AUDIT'S MESSAGE

The Office of Audit is committed to conducting independent audits to: help the U.S. Department of the Treasury accomplish its mission; improve the Department's programs and operations; promote economy, efficiency, and effectiveness; and prevent and detect fraud and abuse. The Office of Audit provides primary audit coverage to the Department's:

- Bureau of Alcohol, Tobacco and Firearms (ATF)
- Office of the Comptroller of the Currency (OCC)
- United States Customs Service (Customs)
- Bureau of Engraving and Printing (BEP)
- Federal Law Enforcement Training Center (FLETC)
- Financial Crimes Enforcement Network (FinCEN)
- Financial Management Service (FMS)
- United States Mint (Mint)
- Bureau of the Public Debt (BPD)
- United States Secret Service (Secret Service)
- Office of Thrift Supervision (OTS), and
- Departmental Offices (DO)

This Annual Plan reflects our Strategic Plan by directing available audit resources at high priority areas consistent with Department and bureau strategic plans, as well as high risk areas and material weaknesses identified by the Department. It is especially important that we produce audit products that Departmental managers and the Congress will find useful and relevant. With that in mind, the Annual Plan is structured to show audits by issue area, highlighting ten significant management concerns that we reported to the Congress in December 1998.

Publication of this Annual Plan provides us another means to communicate with our customers, stakeholders and other interested parties on how we plan to use our audit resources throughout FY 2000.

However, our effectiveness is also determined in part by our ability to adjust our plans and respond to new high priority work from Congress, OMB, and Treasury. Therefore, as has been our experience in previous years, we will retain the flexibility to adjust this Plan to respond to changing priorities. As changes occur we will communicate these to the Department and bureau operations that are affected.

A number of enhancements to this year's Plan are discussed in the Overview that follows. One that I want to emphasize is our continued commitment to meet customer needs. Throughout the Plan, you will see names and telephone numbers of Issue Area Directors on my staff who will be able to provide you with additional information on each audit. These Issue Area Directors, shown in Appendix D, also will be meeting regularly with the appropriate Treasury and stakeholder officials to seek their participation in updating the Plan.

If you, as a recipient of the Annual Plan, have any questions about a specific audit, please contact the appropriate Issue Area Director. If you have questions or comments about the overall plan, please call me at (202) 927-5400.



Dennis S. Schindel
Assistant Inspector General
for Audit

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OVERVIEW

On September 30, 1997, the U.S. Department of the Treasury (Treasury) published its Strategic Plan for Fiscal Years 1997-2002, detailing Treasury's major functions and highlighting the diversity and breadth of Treasury's responsibilities and activities. Accordingly, Treasury has developed a four-part mission statement to incorporate the diverse activities of all its bureaus. This four-part mission statement covers Treasury's economic, financial, law enforcement and management responsibilities. Set forth are the goals Treasury plans to accomplish by Fiscal Year 2002. Treasury's Strategic Plan also identifies those goals and objectives needing attention to improve the products and services Treasury delivers to the American people.

The Office of Inspector General (OIG) plans audit assignments that will address those major lines of business, goals, and objectives included in the Department's Strategic Plan. Because we cannot each year address every aspect of the Strategic Plan, the OIG directs its resources toward high priority issues that benefit customers¹ and stakeholders² the most. To identify the high priority issues, the OIG has an ongoing issue area planning process.

Issue Area Planning

Our planning process starts by making an inventory or universe of major issue areas affecting Treasury and its bureaus. For this year, we have identified 48 issue areas, representing Treasury's primary mission roles and responsibilities. The OIG's issue areas are easily traced, or cross-walked, to Treasury's lines of business, goals, and objectives contained in its Strategic Plan. These issue areas guide us in identifying the universe of issues—long and short-range topics or subjects significant to Treasury and its stakeholders—which need to be addressed because they either pose potential high risk/vulnerabilities or are known to have problems.

¹ Unless otherwise specified, by *customer*, we mean those recipients best able to implement our recommendations and suggestions. In most cases, the *customer* will be the Treasury office or bureau official to whom a report is addressed. In some cases, the customer might also be a Member of Congress, who has requested an audit.

² By *stakeholder*, we mean anyone who has an interest or stake in the work that we do. Generally, *stakeholders* include the public, Congress, the Office of Management and Budget, other governmental entities, educational institutions, and the news media. Our goal is for our work to be of equal value to our *customers* and our *stakeholders*.

Office of Inspector General Issue Areas³

<p><u>Departmental Offices (DO)</u></p> <ul style="list-style-type: none"> Executive Direction and Departmental Management Fiscal and Financial Services Policies/Programs Enforcement Policies/Programs (cross-cutting for law enforcement) Tax and Economic Policies/Programs International Affairs Policies/Programs <p><u>Treasury Forfeiture Fund</u></p> <ul style="list-style-type: none"> Asset Forfeiture Administration <p><u>Community Development Financial Institutions Fund</u></p> <ul style="list-style-type: none"> CDFI Administration <p><u>Treasury Franchise Fund</u></p> <ul style="list-style-type: none"> Franchise Fund Operations <p><u>Foreign Asset Control</u></p> <ul style="list-style-type: none"> Foreign Asset Control Administration <p><u>Financial Crimes Enforcement Network (FinCEN)</u></p> <ul style="list-style-type: none"> Money Laundering Regulation and Technology Money Laundering Support for Law Enforcement <p><u>Federal Law Enforcement Training Center (FLETC)</u></p> <ul style="list-style-type: none"> Training Operations Base Support <p><u>Financial Management Service (FMS)</u></p> <ul style="list-style-type: none"> Debt Collection Services Federal Government Payments Financial Services <p><u>Alcohol, Tobacco, and Firearms (ATF)</u></p> <ul style="list-style-type: none"> Regulatory Enforcement/Protecting the Public Criminal Enforcement/Reduce Violent Crime Revenue Collection <p><u>U.S. Customs Service (Customs)</u></p> <ul style="list-style-type: none"> Revenue Collection Criminal Enforcement/Narcotics Smuggling Criminal Enforcement/Money Laundering Trade Fraud Strategic Outbound Cyber Smuggling 	<p><u>Bureau of Engraving and Printing (BEP)</u></p> <ul style="list-style-type: none"> Manufacturing of Currency, Stamps and Securities Manufacturing Support <p><u>U.S. Mint</u></p> <ul style="list-style-type: none"> Manufacturing and Distribution of Coins (includes compliance with OSHA) Numismatic Marketing and Investments Products Protection of Monetary Metals and Coins <p><u>Bureau of Public Debt (BPD)</u></p> <ul style="list-style-type: none"> Financing the Public Debt Accounting for the Public Debt <p><u>U.S. Secret Service (USSS)</u></p> <ul style="list-style-type: none"> Financial Crimes and Investigative Operations Protective Operations Technology Support <p><u>Office of the Comptroller of the Currency (OCC)</u></p> <ul style="list-style-type: none"> Sound Banking System Fair and Equal Access to Financial Services Competitive and Efficient Bank Industry Organizational, Administrative, Procedural Efficiency <p><u>Office of Thrift Supervision (OTS)</u></p> <ul style="list-style-type: none"> Sound Thrift System Fair and Equal Access to Financial Services Competitive and Efficient Thrift Industry Organizational, Administrative, Procedural Efficiency <p><u>Cross-Cutting Issue Areas that Apply to Departmental Offices and Bureaus</u></p> <ul style="list-style-type: none"> Financial Management Procurement of Goods and Services Information Technology and Security Resources Management Human Resources Management Government Performance and Results Act Implementation
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³ The issue areas are an inventory or universe, and, as such, are neither prioritized nor of equal significance.

The above table lists the issue areas that we considered in allocating our resources as well as the subject matters that we intend to address during Fiscal Year 2000.

The Fiscal Year (FY) 2000 Audit Plan aligns our work with Treasury's mission areas and identifies the issue areas that are pertinent to Treasury's primary missions. Included are a brief description of the assignments that we intend to pursue, the questions that we hope to answer, and the appropriate contact in the event that readers of this Plan have any questions regarding the details of each assignment. The individuals noted are the issue area owners for the respective issue areas and are the primary subject matter experts who can entertain inquiries from Treasury personnel, Congressional staff and interested stakeholders.

In formulating this Plan, we considered:

- Treasury's FY 2000 Budget Justification priorities;
- legislation such as the Government Performance and Results Act (Results Act), Chief Financial Officers (CFO) Act, the Government Management Reform Act (GMRA), and the Federal Deposit Insurance Corporation Improvement Act (FDICIA), which require us to conduct specific audits;
- recent Congressional activity, testimony by Treasury officials, and remarks indicating significant areas of interest by Congressional, OMB, and Treasury officials; and
- observations and suggestions from our internal Issue Area Groups as well as our auditors, investigators and other personnel who perform our work.

FY 2000 Planning Approach

The FY 2000 Annual Plan reflects our efforts to provide better coverage to Treasury and its bureaus. Key features include:

- ***Perspective.*** The Plan's emphasis is on those issues of greatest significance to Treasury rather than to individual Treasury bureaus.

- ***Customer and Stakeholder Participation.*** Our Draft Plan was provided, through bureau liaisons, to Treasury officials for comments. Audit Directors and their staffs met with these liaisons throughout the year to solicit audit suggestions. We also met with interested Congressional Committee staff and OMB officials to obtain their insights and suggestions.
- ***Customer and Stakeholder Service.*** The Office of Audit is organized with the goal of customer and stakeholder service in mind. Directors and their staffs not only develop greater expertise and awareness of Treasury issues but also provide improved liaison with OIG customers and stakeholders. (See organizational charts in Appendix D.)
- ***Responsiveness.*** The Plan is intended to be revised easily throughout the year to meet the unforeseeable demands and shifting needs of Congress, the Department, and others. We also have incorporated a reserve of 10 percent unprogrammed time to provide audit assistance on investigations or respond to requests from our stakeholders and customers.
- ***Continuity.*** The Plan is a dynamic—not static—document that will be updated and continued beyond FY 2000. At present, there are many high priority audits that were not included in the Plan due to resource constraints. (See Appendix A.)

Planning by Significant Management Concerns

The FY 2000 Audit Plan includes more than 40 audits that will address ten significant Treasury management concerns. These ten highly significant management concerns—not ranked by priority—can be easily grouped within the 48 issue areas discussed above as follows:

Significant Management Concern	Related Issue Area(s)
<ul style="list-style-type: none"> • Treasury's Information Technology Investment Management • Treasury's Data Security • Treasury's Revenue Collection • Treasury's Year 2000 Computer Upgrade Compliance Progress • Treasury's Implementation of the Results Act • Treasury's Debt Collection Initiatives • Electronic Funds Transfer/Electronic Benefits Transfer • Treasury's Ability to Produce Consolidated Financial Statements • Trade Enforcement and Narcotics Interdiction by the Customs Service • FMS' Ability to Produce Government-wide Financial Statements 	<ul style="list-style-type: none"> - Information Technology and Security Resources Management - Information Technology and Security Resources Management - Revenue Collection (Customs) - Revenue Collection (ATF) - Information Technology and Security Resources Management - Executive Direction & Dept Management - Results Act Implementation - Debt Collection Services (FMS) - Fiscal and Financial Services Policies/Programs (DO) - Financial Services (FMS) - Fair and Equal Access to Financial Services (OCC and OTS). - Financial Management (DO) - Criminal Enforcement/Narcotics Smuggling - Criminal Enforcement/Money Laundering - Trade Fraud - Cyber Smuggling - Financial Management (DO) - Financial Services (FMS)

We reported these ten significant management concerns to the Majority Leader of the U.S. House of Representatives and to the Chairman of the House Government Reform and Oversight Committee on December 14, 1998. We also provided this information to the Chairman of the Senate Governmental Affairs Committee on February 2, 1999. The ten significant management problems—and selected audits for FY 2000 to address them—are discussed in more detail as follows:

✓ **Treasury's Information Technology Investment Management**

Effective compliance with the provisions of the Information Technology Management Reform Act (ITMRA) is essential for Treasury to manage its FY 2000 \$2 billion information technology (IT) budget. Meeting the mandates of this Act will require the Department and individual bureaus to improve management practices in the areas of capital planning, investment controls, project management, systems development, and establishing performance measures for information technology. The Department's past inability to implement successfully major computer system initiatives clearly demonstrates a need to strengthen current processes and establish better controls for ensuring sound investment decisions are made and successful system implementations are achieved.

To address this significant management concern, the Office of Audit is devoting about 2 percent of its audit resources to audits, such as:

⇒ *Treasury's Human Resources System* – Has Treasury effectively managed the system development life cycle to accomplish an integrated Human Resources System which: increases the timeliness and accuracy of personnel data; streamlines personnel processes; and enables users to directly and easily access and enter human resources information in a secure environment? (See Page 24.)

⇒ *Treasury's FFMIA Compliance* – Has Treasury completed effective remediation plans for its bureaus in accordance with the Federal Financial Management Improvement Act (FFMIA)? (See Page 21.)

✓ **Treasury's Data Security**

Major computer systems at several Treasury bureaus are vulnerable to unauthorized access. Our financial audit work has provided audit referrals that identified information security problems at several bureaus. OMB Circular A-130, Appendix III, Security of Federal Automated Information Resources, established a minimum set of controls for agencies' automated information security programs, including assigning responsibility for security, security planning, periodic review of security controls, and management authorization of systems to process information. Inadequate access controls diminish the reliability of computerized data and increase

the risk of destruction or inappropriate disclosure of data.

Additional risks stem from Treasury's efforts to make systems Year 2000 compliant. The Year 2000 conversion effort is being addressed under severe time constraints that, without adequate management attention, could have resulted in a weakening of controls over the integrity of data and programs and over the confidentiality of sensitive data.

To address this significant management concern, the Office of Audit is devoting about 4 percent of its audit resources to audits, such as:

- ⇒ *Treasury's Critical Infrastructure Plan* – Is Treasury adequately planning and managing the coordination effort to protect its critical infrastructure in accordance with Presidential Decision Directive 63? (See Page 20.)
- ⇒ *Treasury Law Enforcement Data Security* – Have adequate security controls been incorporated over Treasury law enforcement data at ATF, other law enforcement bureaus, and FinCEN? (See Page 21.)
- ⇒ *FMS Electronic Commerce Systems* – Does FMS have sufficient controls and security over electronic commerce systems? (See Page 20.)

✓ **Treasury's Revenue Collection**

Although IRS collects 97 percent of the revenue obtained by the Department of the Treasury, Customs collects approximately \$22 billion in revenue, and ATF about \$12 billion. Opportunities exist in both bureaus to increase revenues through improvements in systems that measure compliance and identify underpayment of excise taxes, import duties, and user fees.

To address this significant management concern, the Office of Audit is devoting about 5 percent of its audit effort for audits such as:

- ⇒ *ATF Special Occupational Tax (SOT) Program* – Following up on our prior audit, has ATF taken steps to improve its ability to collect SOT from alcohol producers, wholesalers and retailers subject to it? (See Page 25.)
- ⇒ *Customs Trade Compliance Measurement* – Are trade compliance

measurement stratified examinations useful? Are Customs Inspectors and Import Specialists in the field following pertinent instructions for administering these examinations? (See Page 26.)

⇒ *Customs Merchandise Processing Fees* – Has Customs established adequate controls to ensure that importers pay merchandise processing fees accurately and timely? (See Page 26.)

✓ **Treasury's Year 2000 Computer Upgrade Compliance Progress**

The Year 2000 problem could adversely affect Treasury's ability to record, process, summarize, and report data based on the functional design and user expectations of any given information system. Year 2000 problem implications may manifest themselves before, on, or after January 1, 2000. Effects on operations may range from minor errors to catastrophic system failures.

To address the Year 2000 problem, Treasury institutionalized an oversight and reporting function for this conversion process. Each bureau reports its Year 2000 conversion progress monthly to the Department. The Department, in turn, prepares monthly and quarterly reports to OMB.

Since December 1997, the Office of Inspector General has reviewed 13 bureaus to determine whether Treasury, as a whole, established an infrastructure for managing its Year 2000 conversion efforts. The bureaus generally had the infrastructure, skilled resources and reasonable guidance for the Year 2000 conversion task; however, we recommended improvements to five bureaus in the areas of project management, system conversion and certification, data exchange, and contingency planning for business continuity.

We will continue to assist Treasury with its Year 2000 conversion by auditing: (1) Year 2000 independent verification and validation (IV&V) testing, and (2) contingency planning for business continuity in the event of Year 2000-induced failures to mission-critical systems. To address this significant management concern, the Office of Audit is devoting about 2 percent of its audit resources to assess:

⇒ *Independent Verification and Validation Testing* – Is Treasury

accurately reporting its IV&V testing progress to the Office of Management and Budget? (See Page 23.)

⇒ *Contingency Planning For Year 2000-Induced Failures* – Have viable business continuity and contingency plans been developed and tested? (See Page 23.)

✓ **Treasury's Implementation of the Results Act**

The Government Performance and Results Act (Results Act), or GPRA, requires Federal agencies to more effectively plan, budget, execute, evaluate, and account for their programs and activities. Agencies must develop strategic plans, set performance goals, and measure their performance against these goals. A key challenge for Treasury will be to integrate the performance planning and reporting required by the Results Act with its budget formulation and execution, and the annual financial reporting under the CFO Act and GMRA. Another critical challenge will be for Treasury to develop effective cost accounting so that programs and operations can be effectively evaluated from a cost/benefit standpoint.

The Office of Inspector General has developed a program to assess the appropriateness, reliability, and validity of Treasury's performance measures and the data and information supporting the measures. To address this significant management concern, the Office of Audit is devoting about 13 percent of its audit resources to assess:

⇒ *Strategic Planning* - What are the strengths and weaknesses of the strategic planning processes at OCC, FinCEN, and Secret Service relative to the Results Act's goals and requirements? To what extent are these bureaus' strategic planning processes meeting the needs of Treasury, Congressional and other stakeholders and customers? (See Pages 30-31.)

⇒ *Data Reliability and Validity* - Are sufficient systems in place for ATF, BEP, the U.S. Mint, Customs, ATF, OCC, and OTS accurately to report their performance to Treasury, Congressional and other stakeholders? Also are bureaus with common interests—OCC and OTS regarding the soundness of financial institutions; ATF and Customs regarding revenue collection—coordinating their approaches? (See Pages 28-31.)

⇒ *Customer Satisfaction* - Can BPD management increase response rates for customer satisfaction surveys? How might BPD use customer satisfaction information to improve its operations and support its Results Act performance measures? (See Page 28.)

To further supplement our Results Act work, we note throughout this Plan whenever a portion of an audit will be devoted to Results Act performance measurement testing.

✓ **Treasury's Debt Collection Initiatives**

The Debt Collection Improvement Act of 1996 (DCIA) significantly increased Treasury's responsibilities for managing the Federal Government's non-tax delinquent debt. One of the key provisions of the Act provides that Federal agencies must transfer debt over 180 days old to the Treasury. In turn, Treasury was given increased authority to offset delinquent debt against certain Federal payments. The Financial Management Service (FMS) has primary responsibility for implementing the Act. To date, progress has been slow, and results in terms of additional delinquent debt collected through offset have not met projections. Treasury, specifically FMS, needs to develop a more comprehensive plan and aggressively address obstacles to successfully implementing DCIA. Only in the past 2 years has FMS awarded contracts to 10 private collection agencies.

To address this significant management concern, the Office of Audit is devoting about 6 percent of its audit effort to audits such as:

⇒ *FMS Implementation of DCIA Regulations* – Has FMS implemented the Debt Collection Improvement Act (DCIA) and do the regulations satisfy DCIA requirements to collect debt owed to the federal government? Has FMS successfully implemented related Results Act performance measures? (See Page 32.)

⇒ *Treasury's Offset Program* – Is the Treasury Offset Program (TOP) effective in offsetting tax refunds, federal salaries, and other federal payments to recover delinquent debt? Does FMS adequately communicate with program agencies to ensure that debt balances are current and remain active until collected? Has FMS successfully

implemented related Results Act performance measures? (See Page 33.)

✓ **Electronic Funds Transfer/Electronic Benefits Transfer**

Electronic Benefits Transfer (EBT) is the major government initiative to develop an EFT system for delivering these benefits to recipients without a bank account. EBT is any delivery system that replaces paper benefit distribution with EFT and provides electronic access in the form of a plastic card. A majority of states have implemented or are developing EBT systems. The Vice President's September 1993 *Report of the National Performance Review from Red Tape to Results* called for the rapid development of a nationwide system to deliver government benefits electronically. A nationwide EBT system presents an opportunity to replace current Federal and State paper delivery mechanisms for benefits. One government estimate indicates that this system, comprising all Federal and State programs, would electronically deliver over \$111 billion in benefits annually through automated teller machines and retail point of sale terminals.

An important advantage of converting from paper to electronic delivery is the EBT system's anticipated value in reducing fraud, waste, abuse, and inefficiency in current benefit programs. A Federal EBT Task Force and the Department of the Treasury's Financial Management Service (FMS) led the effort to implement a system that ensures safe and secure delivery of benefits.

To help minimize future risks, FMS needs to develop standards for card systems that support government services and business processes that affect Treasury's cash accounts. Additionally, FMS needs to work with the Government-wide Risk Advisory Forum on EBT to develop security risk policies. Uncorrected weaknesses will increase the risk of theft or abuse of a system that is expected to deliver Federal benefits in the billions of dollars.

To address this significant management concern, the Office of Audit will audit:

⇒ *FMS EBT Program Implementation* - Is FMS effectively addressing the needs of individuals who do not have bank accounts in order for them to receive electronic payments through the Electronic Benefits Transfer (EBT) Program? (See Page 37.)

✓ **Trade Enforcement and Narcotics Interdiction by the Customs Service**

As the principal border agency charged with ensuring that all goods and persons entering the U.S. comply with our laws, the Customs Service has a fundamental role to play both in trade compliance and in the National Narcotics Strategy. Customs estimates that in FY 1999 it will process 471 million passengers, 131 million conveyances, and \$908 billion in commercial importations. Customs has initiated a number of special programs intended to keep pace with the explosion of trade activity in recent years. However, antiquated data systems that are not fully integrated continue to pose a high risk that Customs will not be able adequately to carry out the dual responsibilities of facilitating trade and ensuring trade compliance as well as protecting the borders against drug smuggling and money laundering.

To address this significant management concern, the Office of Audit is devoting about 7 percent of its audit effort for audits such as:

⇒ *Customs Southwest Border Intelligence* – Has Customs created the capability to communicate actionable Southwest Border intelligence on narcotics and contraband smuggling? (See Page 39.)

⇒ *Customs Export Controls Regarding Countries of Concern* – Do Customs' intelligence and export controls specifically target unauthorized exports of military sensitive technologies to countries of concern due to terrorism or nuclear weapons capability? (See Page 40.)

⇒ *Customs High Technology Equipment* – Does Customs properly justify, use and deploy high-priced technology equipment in a manner that allows for effective enforcement efforts? (See Page 42.)

✓ **Treasury's Ability to Produce Consolidated Financial Statements**

Treasury has made substantial progress over the past several years to comply with the Chief Financial Officers (CFO) Act and GMRA. However, several bureaus—including some that have received unqualified opinions on their financial statements—still have a number of material weaknesses that need to be corrected. Some of these weaknesses cause bureaus to expend a great deal of effort after year-end to produce auditable financial statements.

This in turn prevents them from producing meaningful, reliable financial data throughout the year to help managers better manage their programs. The consolidation of the individual Treasury components into the Treasury-wide financial statements also poses significant challenges. Transactions among component entities must be identified, reconciled, and eliminated.

The financial statements audit work at Treasury is driven primarily by the CFO Act and GMRA requirements; however, other statutory financial statements audit requirements are also incorporated into our overall Audit Plan. We must perform sufficient audit work to enable us to opine on the consolidated Treasury-wide financial statements. This requires that Treasury component entities or portions thereof, which are material to the Treasury consolidated financial statements, must be audited. Included are stand-alone audited financial statements for three Treasury entities—IRS, Customs and ATF—designated by OMB under GMRA.

Financial statements audits required by other statutes are incorporated into the overall audit plan. Treasury entities required to be audited under other statutes include BEP, the Federal Financing Bank (FFB), OCC, Mint, the Treasury Forfeiture Fund (TFF), OTS, the Exchange Stabilization Fund (ESF), and the Community Development Financial Institutions (CDFI) Fund.

The OIG has developed an innovative strategy for ensuring that the financial statements audit requirements of the CFO Act and GMRA are successfully implemented at Treasury. An integral part of the OIG's strategy is to take a proactive approach with the Department's bureaus to address major financial management and internal control vulnerabilities that inhibit reliable, auditable financial information. The OIG works closely with management to develop corrective action plans that consider resource constraints and provide aggressive, but realistic, time frames for implementation. In addition, the OIG assists management in identifying critical actions that must be taken within the existing systems framework versus those actions that cannot be implemented feasibly without major systems overhaul. This short-term/long-term approach is essential for ensuring that steady progress is achieved.

To address this significant management concern, the Office of Audit is devoting about 23 percent of its audit effort to financial statement and other

related audits of internal financial management. (See Page 38.)

✓ **The Financial Management Service's Ability to Produce Government-wide Financial Statements**

Financial statement audit efforts of FMS' fiduciary functions on behalf of the Federal Government have identified indicators of financial management weaknesses. FMS' fiduciary responsibilities include accounting for the Federal Government's operating cash. The accuracy of FMS' records of Fund Balances with Treasury accounts government-wide and the resolution of large amounts of deposits and disbursements recorded to suspense accounts are dependent on effective reconciliations performed by other Federal agencies. GAO audits of individual agency financial statements have often identified instances, involving billions of dollars, where agencies were adjusting their accounts to reflect the amounts reported by FMS without adequately researching the causes of the differences.

FMS is also responsible for preparing the consolidated financial statements of the U.S. Government, as required by the Government Management Reform Act (GMRA). This requires that FMS provide for financial data to be transmitted from other agencies and that FMS ensure that all interagency transactions be identified, reconciled, and eliminated in the consolidation. FMS calculated a net out-of-balance condition of \$54 billion for Fiscal Year 1998.

To address this significant management concern, the Office of Audit is devoting about 3 percent of its audit effort to financial statement and other related audits of internal financial management. (See Page 38.)

OTHER HIGH PRIORITY WORK

In addition to the above ten significant management concerns, the Office of Audit has identified other high priority work. Why do work that is not considered to be a major management concern for Treasury? The answer is that Treasury's missions are all important and most are of vital interest to Congress and the public. For example, Treasury's efforts to fight violent crime, ensure the safety and soundness of financial institutions, and manufacture currency and coins are a few of the important issue areas that, for now, may not constitute major management concerns but are nonetheless important areas.

The Office of Audit will devote 34 percent of its resources to audits of such other high priority work in issue areas exemplified by the following:

Issue Areas	Audit Resource Commitment (Percentages)
Banking	8
Enforcement	7
Contract Audit Oversight	4
Executive Direction	4
Manufacturing	3
International Activities	3
Other	5

COLLABORATION WITH INVESTIGATIONS

Investigations are of utmost importance but can be difficult to anticipate in planning the commitment of audit resources. Our practice has been, and will continue to be, to treat requests for assistance by the Office of Investigations and other investigative organizations as top priority. To the extent we cannot anticipate the need for our assistance, we are prepared to delay or defer other planned audit work in the event we subsequently are requested to work on an investigation.

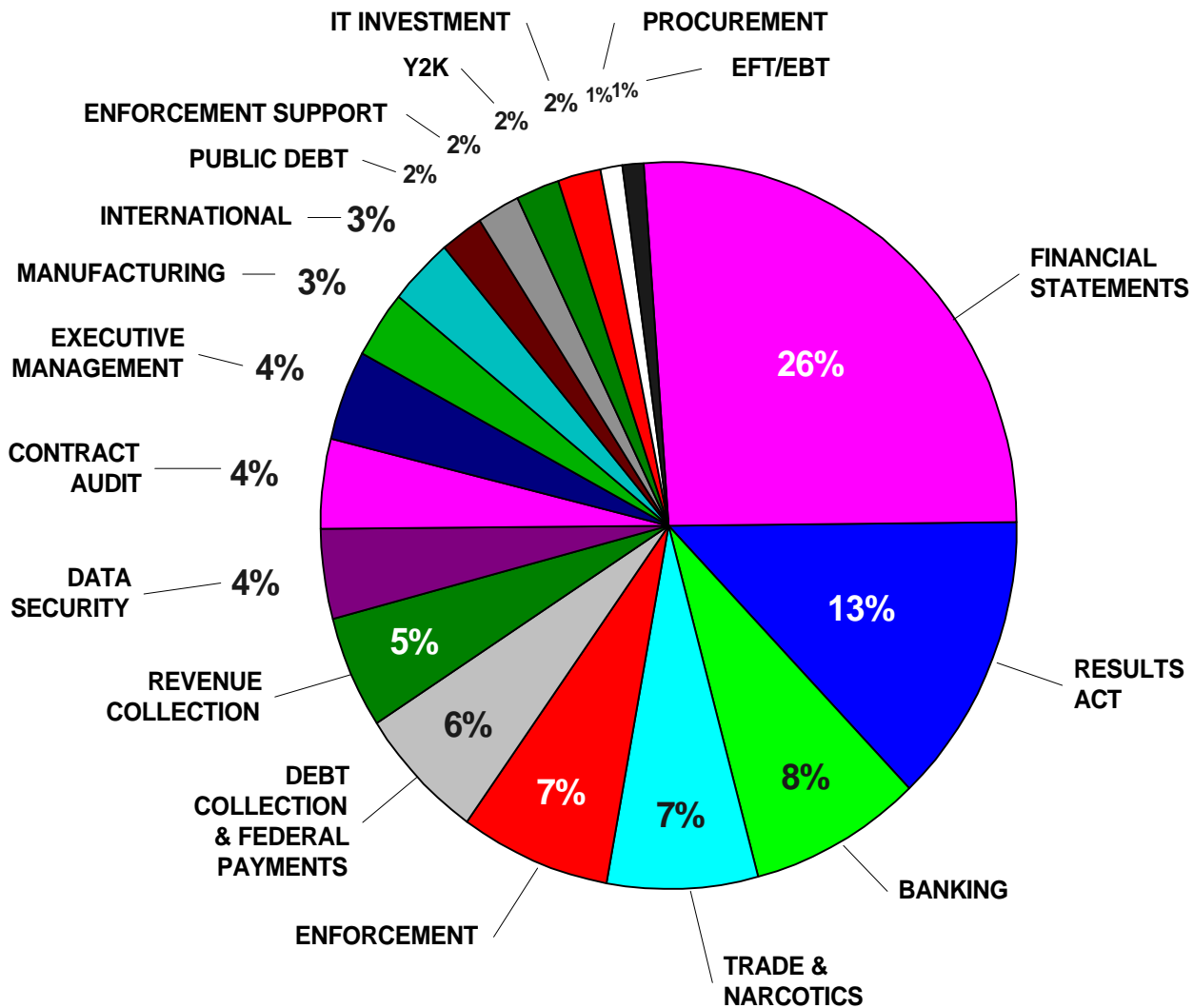
In preparing the FY 2000 Annual Plan, the Office of Investigations participated in our audit planning process. Although the Annual Plan is not the appropriate place to discuss specific cases on which we were invited to assist, the following represents approximately 60 staff days of anticipated Audit support:

Investigative Areas	Estimated Audit Commitment
Overcharges by a vendor under investigation	40 Days
Numerous contracting allegations in a lengthy complaint	20 Days
Review of payroll records to determine alleged double billing	To be Determined

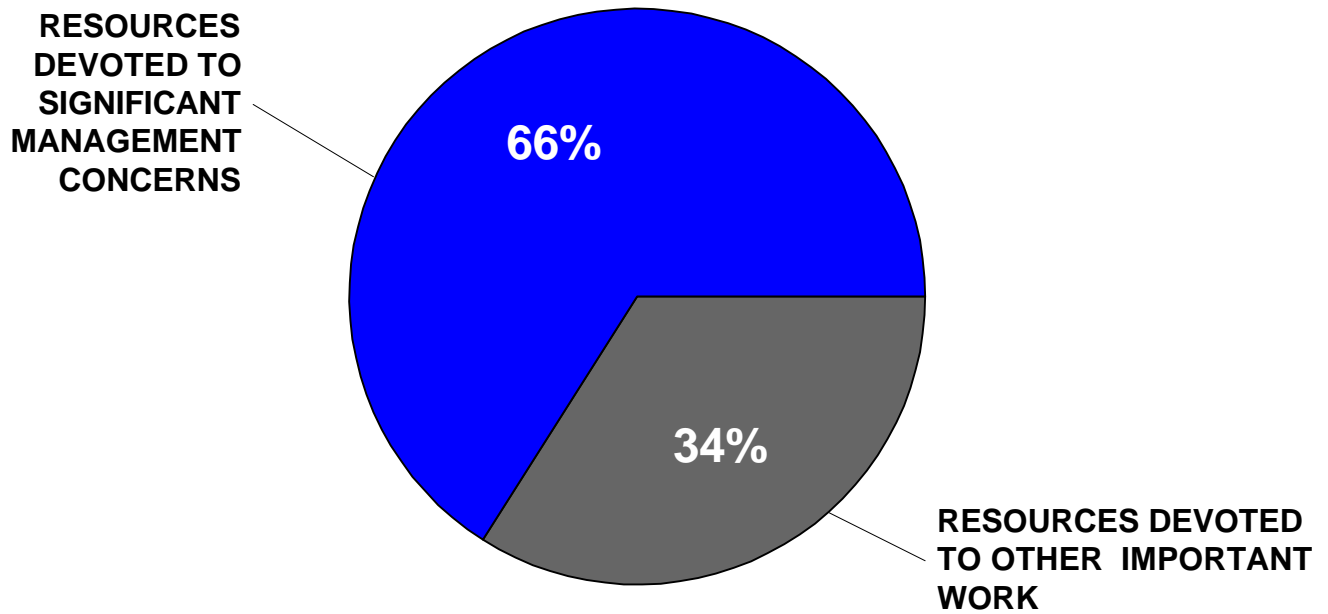
RESOURCE COMMITMENT

The following charts demonstrate the Office of Audit's commitment of resources by issue area and by significant management concern.

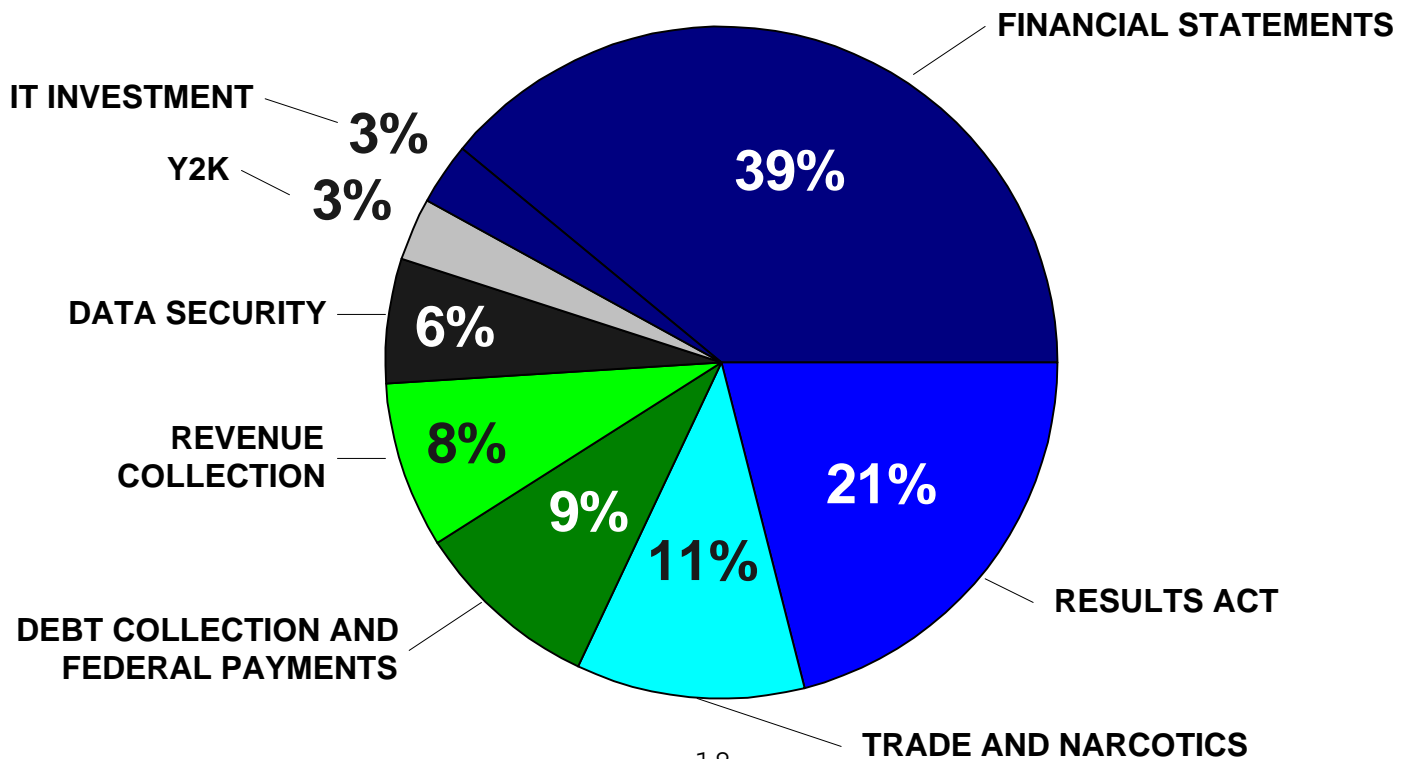
CHART 1. RESOURCE COMMITMENT BY ISSUE AREA



**CHART 2. RESOURCE COMMITMENT
BY SIGNIFICANT MANAGEMENT CONCERN**



**CHART 3. RESOURCE COMMITMENT
TO SIGNIFICANT MANAGEMENT CONCERNS
SHOWN BY CONCERN**



INDIVIDUAL PLANNED AUDITS

Individual audits are briefly summarized in the following pages. Each audit has: a brief title which includes the bureau to be audited; a background explaining information about the audit; and the objectives or questions to be addressed by the audit.

The audits are grouped by issue area, with those audits which address the ten significant management concerns discussed first and designated by a check mark (✓). In instances in which an audit or evaluation would normally be done by one Issue Area Director but, due to resource considerations, will likely be done by another, a footnote is provided (). Should you need additional information on any audit, please note the name and telephone number of the Issue Area Director are provided for your assistance. The Issue Area Director may not be responsible for conducting every audit listed, but he or she can provide information about the audit.

An Important Reminder: The Annual Plan must be flexible rather than static. Throughout FY 2000, audits in this plan may be subject to change or replacement in order to provide the most important audit support for Treasury and our stakeholders. Audits in the Plan may be delayed or canceled so that we can provide audit support to OIG Investigations or answer requests for new high priority work from Congress, OMB or Treasury.

Following this section, the Annual Plan includes a list of additional audits which for lack of sufficient resources will not likely be done—although they are important and should be done—in FY 2000. (See Appendix A.)

For those who wish to see planned audits listed by Treasury bureau, an index is provided for your convenience. (See Appendix B.) Similarly an index of audits by significant management concern or issue area also is provided. (See Appendix C.)

Also included are organizational charts that provide points of contact for our issue area groups. (See Appendix D.)

INFORMATION TECHNOLOGY

Issue Area: Information Technology and Security Resources Management

Contact Person: Cliff Jennings, Director of Audit, (202) 927-5771

Title: FMS Electronic Commerce Systems Controls and Security ✓

Background: Electronic commerce will play a most significant role for Treasury in the future. As electronic commerce—or E-Commerce—is implemented, FMS must consider critical infrastructure and security implications.

Audit Objective/Key Question: Does FMS have sufficient controls and security over electronic commerce systems?

Title: Treasury's Critical Infrastructure Protection Plan ✓

Background: Certain national infrastructures are so vital that their incapacity or destruction would have a debilitating impact on the defense or economic security of the United States. These critical infrastructures include telecommunications, electrical power systems, gas and oil storage and transportation, **banking and finance**, transportation, water supply systems, emergency services, and continuity of government. There are two types of threats to critical infrastructures: physical threats and cyber threats. To address these threats, Presidential Decision Directive (PPD) 63 was issued on May 22, 1998. The goal of this Directive is to produce a workable and innovative framework for critical infrastructure by the year 2003, and significantly increase security to government systems by the year 2000.

Protection of critical infrastructures has become a high profile issue. As a result of advances in information technology and the necessity of improved efficiency, the infrastructures noted above have become more automated and interlinked. However, these advances have created new vulnerabilities to equipment failures, human error, weather and natural causes, and physical and cyber attacks. In addition, critical infrastructures are also vulnerable to disruption by acts of terrorism and information warfare. An example of this is the recent attack on NATO's web site.

While each department and agency of the Federal government is responsible for protecting its own critical infrastructure, including its cyber-based systems, the Department of Treasury is designated Lead Agency for the Banking and Finance infrastructure sector. Each Treasury office and bureau is responsible for identifying Treasury's Critical Infrastructures, assessing its vulnerabilities, and assuring its availability, integrity, survivability, and adequacy. Protection plans should have been developed by each Treasury office and bureau no later than 180 days from the issuance of PPD 63 (or November 1998) and should be implemented within two years (or May 22, 2000). Plans are required to be updated every two years .

Audit Objective/Key Question: Is the Department of Treasury adequately planning and managing the coordination effort for the protection of its critical infrastructures?

Issue Area: Information Technology and Security Resources Management

Contact Person: Cliff Jennings, Director of Audit, (202) 927-5771

Title: Treasury's Progress in Achieving Compliance with FFMIA ✓

Background: The Federal Financial Management Improvement Act of 1996 (FFMIA), 31 U.S.C. 3512, applies to CFO agencies, and is summarized in Section 803(a). "In General ... Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government General at the transaction level."

FFMIA has a reporting requirement for the OIG's of agencies found not to be in substantial compliance. Our report, OIG-99-054, Report on the Department of the Treasury's Fiscal Year 1998 Financial Statements, made a determination of substantial noncompliance. The determination of substantial noncompliance is based on reporting from six bureaus, including Customs, IRS, FMS, Secret Service and EOAF.

As a result of the substantial noncompliance, the Department is required to prepare a remediation plan. Remediation plans have been developed for Customs, Mint, IRS and FMS, but not Secret Service or EOAF. Coordination with the Treasury Inspector General for Tax Administration will be required because of the material impact of IRS' substantial noncompliance. There is a requirement, separate from the FFMIA reporting requirement on CFO audits, that OIG's assess progress on the remediation plans, and report out on any missed milestones in the semiannual reports. The report for agencies not meeting the intermediate target dates established in the remediation plan shall include (1) the entity or organization responsible for the non-compliance, (2) the facts pertaining to the failure to comply with the requirements, including the nature and extent of the non-compliance, the primary reason or cause for the failure to comply, and any extenuating circumstances, and (3) a statement of the remedial actions needed to comply.

Audit Objective/Key Question: What progress has Treasury made in achieving compliance with FFMIA?

Title: Treasury Law Enforcement Bureau Controls Over Data Security ✓

Background: Treasury bureaus collect and disseminate many types of law enforcement data. For example, ATF collects law enforcement data, such as information on gangs (the Consolidated Gang Database), and firearms tracing (Firearms Tracing System). These systems provide agents and other local law enforcement agencies with data to assist in criminal investigations and provide tactical intelligence regarding criminal cases.

FinCEN collects financial data required by the Bank Secrecy Act, such as Currency Transaction Reports (CTRs) and Suspicious Activity Reports (SARs), that have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings. This data is maintained at the IRS Detroit Computing Center in a centralized database. FinCEN currently has a web system in place to provide online communication and information sharing among all the Treasury bureaus. Based on Internet access, the security of the system features state-of-the-art capabilities in computer, communication, and encryption technology, and will be accredited by federal and private experts in the field.

FinCEN also provides all 50 states, DC, and Puerto Rico with direct access to the BSA database by direct, on-line, electronic access (Project Gateway). In FY 2001, FinCEN plans to incorporate Gateway into a secure web system, thereby given the states the same or similar levels of access as the federal agencies.

Audit Objective/Key Question: Have adequate security controls been incorporated over Treasury law enforcement data?

Issue Area: Information Technology and Security Resources Management

Contact Person: Cliff Jennings, Director of Audit, (202) 927-5771

Title: Treasury Computer Security Awareness Training ✓

Background: The computer security act of 1986 requires that security awareness training be provided all government employees and contractor personnel. The training is to be accomplished annually and for new employees within 60 days on starting work. This is re-enforced by OMB Circular A-130 and Treasury Security Manual. The need for security had been established. Its benefit as a cost effective deterrent had been established. The review of the programs is to determine how meaning, effective, and viable are the on-going programs.

Audit Objectives/Key Questions: Is computer security awareness training being conducted as required by the Compute Security Act, OMB Circular A-130 and Treasury Directive? Do bureaus have meaningful and effective Computer Security Awareness Programs?

Title: Treasury Computer Security Plans ✓

Background: The OMB Circular No. A-130, "Management of Federal Resources" establishes the policy for Federal information resources. Appendix III of this circular requires agencies to provide two reports to OMB. The first is requirement that agencies report security deficiencies and material weaknesses within their FMFIA reporting mechanisms as defined by OMB Circular No. A-123, "Management of Accountability and Control," and take corrective actions in accordance with that directive. The second, defined by the Computer Security Act, requires that a summary of agency security plans be included in the strategic Information Resources Management (IRM) plan as required by the Paperwork Reduction Act (44 U.S.C. Chapter 35).

Audit Objectives/Key Questions: Do the bureaus have current Computer Security Plans? Do they meet the requirements of OMB Circular No. A-130, "Management of Federal Information Resources."

Title: Treasury Information System Change Management Controls ✓

Background: For the last 8 years weakness in change controls have been identified and reported by IT auditors in the CFO annual audit reports. Ineffective change control management has been reported at all the bureaus. Because software change control practices are weak, bureaus' systems are less likely to (1) produce reliable data, (2) execute transactions in accordance with applicable laws, regulations, and management practices and policies, or (3) effectively meet operational needs. Failure to adopt and adhere to proper change control procedures destroys the audit trails needed to detect fraud and other improper acts. Without adequate change control procedures controls over data, security can be completely circumvented. Treasury's data security is a significant management concern. Also, without effective change controls in place financial auditors substantive testing can lead to the wrong conclusions. Similar concerns exist for change control practices regarding hardware.

Audit Objectives/Key Questions: Are all application program changes authorized, tested and approved for implementation according to the criteria of the Federal Information System Control Manual?

Issue Area: Information Technology and Security Resources Management

Contact Person: Cliff Jennings, Director of Audit, (202) 927-5771

Title: Treasury Year 2000 Independent Verification and Validation Testing (Carryover from FY 1999) ✓

Background: The Mint performed Independent Verification and Validation (IV&V) Testing for Year 2000 compliance of its Consolidated Information System (COINS) in September 1999. ATF has not completed implementation of three mission-critical mainframe systems. Its Federal Excise Tax revenue system is due for completion in October 1999. In addition, ATF has not re-performed Year 2000 IV&V testing of systems subsequently modified.

Audit Objectives/Key Questions: Is the information pertaining to IV&V reported in Treasury's quarterly Year 2000 progress reports to OMB accurate? Are the Year 2000 systems certifications reliable to ensure that systems are compliant and will function as intended in 2000?

Title: Treasury Contingency Planning for Year 2000-Induced Failures (Carryover from FY 1999) ✓

Background: Neither the Mint nor ATF have developed business continuity and contingency plans (BCCP) in the event of Year 2000-induced failures of critical systems. While we are surveying all bureaus' current progress toward completing systems certification for Year 2000 compliance and developing viable BCCP's, our major emphasis will be on Customs, ATF, FMS and the Treasury Communications System (TCS). Although GAO has reviewed Customs' Year 2000 program management and found it to be effective, we will follow-up from January 1999, where GAO's work stopped. Any best practices at Customs could be useful to other bureaus. FMS is critical to government-wide financial operations. As the disbursing agency for Social Security and other programs, FMS has a major impact on the public. As Treasury's principal telecommunications system, TCS is critical to both Treasury and government-wide operations.

Audit Objectives/Key Questions: Have viable business continuity and contingency plans been developed and tested?

Issue Area: Information Technology and Security Resources Management

Contact Person: Cliff Jennings, Director of Audit, (202) 927-5771

Title: Treasury Human Resources System Development Lifecycle ✓

Background: The Department of the Treasury and its bureaus have undertaken efforts to reengineer human resources (HR) management by implementing a new corporate human resources system (HRS) based on a suite of commercial off-the-shelf products. These off-the-shelf products are called applications. Application systems are developed and maintained to serve system users by providing them with various data processing and information reporting capabilities. Each application system has six major phases during system development and maintenance life cycle process, including systems planning, systems analysis, systems design, systems construction, systems implementation and systems operation and maintenance.

Audit Objectives/Key Questions: To what extent has Department accomplished stated project goals for creating an integrated HR system which increases the timeliness and accuracy of personnel data; streamlines personnel processes; and enables users to directly and easily access and enter HR information in a secure environment?

REVENUE COLLECTION (CUSTOMS AND ATF)

Issue Area: Revenue Collection (Customs and ATF)

Contact Person: Don Benson, Director of Audit, (617) 223-8638

Title: ATF Special Occupational Tax Program – Follow-up Audit (Carryover from FY 1999) ✓

Background: ATF collected \$107 million in Special Occupational Taxes (SOT) in Fiscal Year 1997. ATF estimated 90 percent of that amount came from alcohol SOTs. ATF assumed responsibility for administering the alcohol SOT program from the Internal Revenue Service in July 1987. There are separate occupational taxes for alcohol producers, wholesalers, and retailers. The tax is a fixed amount per business location per year. The tax is \$1,000 for large producers and \$500 for small producers who grossed less than \$500,000 the previous year. Wholesalers pay a \$500 occupational tax for each location. Retailers, who make up the largest group of SOT taxpayers, are required to pay \$250 per year.

According to the OIG's audit report, ATF is hampered by its limited regulatory authority over alcoholic beverage retailers. The OIG recommended transferring verification of the SOT to state and local licensing activities who would volunteer to participate. In exchange, the participating licensing activities could share a portion of the SOT collected in those jurisdictions. The OIG believed this concept would improve SOT collectability.

Audit Objectives/Key Questions: Has ATF taken steps to improve its ability to collect Special Occupational Tax (SOT) and provide assurance that retailers who are subject to the tax are identified and held accountable for payment? Is ATF collecting all the tax due?

Title: ATF Alcohol and Tobacco Revenue Inspection Program Follow-up ✓

Background: ATF collected \$7.6 billion in excise taxes from the alcohol industry during FY 97 and \$5.9 billion from the tobacco industry. ATF devoted 410 staff years to its Inspection Programs during FY 1998, of which 21 of those years were used to perform alcohol inspections and 4 years to perform tobacco inspections. The 21 staff years resulted in 452 alcohol industry examinations, of which 95 were at distilleries, 267 at breweries and 90 at wineries. The 452 examinations resulted in assessing additional taxes of \$1.8 million. For the tobacco industry, the 4 staff years resulted in 203 examinations and assessed an additional \$140,000 in taxes. In 1994, the OIG issued a report on ATF's alcohol and tobacco inspection program titled "Bureau of Alcohol, Tobacco and Firearms: Tax Compliance Inspection Improvements Needed" (OIG-94-143). This audit will follow-up on recommendations in that report. However, because of changes that have occurred since that report in how ATF manages the activity, we will weigh the current relevance of these recommendations and the changes ATF has made in the program as we audit this area.

Audit Objective/Key Question: Is ATF targeting its inspections to operations posing the greatest risk to the revenue stream?

Issue Area: Revenue Collection (Customs and ATF)

Contact Person: Don Benson, Director of Audit, (617) 223-8638

Title: Customs Trade Compliance Measurement ✓

Background: Customs is mandated by the Customs Modernization Act (incorporated in the North American Free Trade Agreement (NAFTA) Implementation Act, to produce an annual Trade Compliance Measurement Report. This report lists the products, and countries, and their associated rates of compliance based on sample inspections of imports. The Report for FY 1998 indicated that nationwide, compliance was 81 percent in FY 1998, as it had been in FY 1997. Customs original goal was 95%. (Customs is aiming for a compliance rate of 90% by FY 2004.) The trade compliance measurement data is supposed to be a major key in assisting Customs to improve service to the international trading community, use limited resources effectively, provide statistics to other agencies and ensure that import laws and regulations are being followed. The report is also intended to help importers comply with trade laws. The report is intended to provide hard evidence of which industries and products are associated with low compliance on import paperwork rules regarding product classification, valuation and marking. While the report's theoretical goal is acknowledged by trade representatives, they have said that Customs is focusing on minor errors, especially in the area of product classification, where Customs is challenged to decide correctly what product should go in which category.

Audit Objectives/Key Questions: Are Trade Compliance Measurement Program (CMP) stratified examinations useful and cost-effective? Are Customs Inspectors and Import Specialists in the field following the mandated instructions pertinent to CMP examinations?

Title: Customs Merchandise Processing Fees ✓

Background: Merchandise processing fees (MPF) are to be paid by the importer of record and deposited into Customs' user fee account at Customs' Finance Management Center in Indianapolis, Indiana. From this account, the revenues are to be deposited in the Treasury's general fund as of the end of each month. Customs does not have any control over the allocation of the MPF revenues since Congress must specifically appropriate these revenues each new fiscal year. Past OIG audits identified the U.S. Customs Service has not established adequate controls to ensure that air passenger user fees were effectively and accurately collected. The MPF uses similar controls based on compliance to ensure payment. In the past three FY's, the MPF has generated almost \$2.3 billion in revenue for the U.S. Government. It is far and away Customs largest user fee. The sheer size of this fee makes it an attractive target for abuse. In addition to OIG concerns, Customs FY 1996 annual report (page 24) estimates a 1.4 percent loss in recorded duty revenues due to industry noncompliance for FY 1996. Customs estimated this uncollected amount at \$274 million.

Audit Objective/Key Question: Has the U.S. Customs Service established adequate controls to ensure that all Merchandise Processing Fees from the importers of record are paid accurately and in a timely manner?

Issue Area: Revenue Collection (Customs and ATF)

Contact Person: Don Benson, Director of Audit, (617) 223-8638

Title: Customs General Order Merchandise (Carryover from FY 1999) ✓

Background: Customs is authorized to declare certain imported goods as general order merchandise. General order merchandise are imported goods where the consignee has (1) not filed an entry with Customs within established timeframes; (2) not paid the estimated duties; (3) not provided the proper documents; or (4) not correctly or legally invoiced the merchandise. Once declared, the merchandise is deposited into a Customs bonded general order warehouse. The consignee has six months to remedy the circumstances and to claim the merchandise. After the holding period, Customs can sell the merchandise at public auction through their contracted auctioneer. The net proceeds from the sale of merchandise goes to the U.S. Treasury after claimholder interests are satisfied (auction costs, duties, Customs expenses, storage expenses, and other lienholders). IN FY 1997 and FY 1998, Customs sold about \$14 million of general order merchandise. Because the payment of duties, expenses, and other claims take precedence, any delay in the public sale of general order merchandise increases the Government's costs thereby reducing the net proceeds to the U.S. Treasury.

Audit Objective/Key Question: Is Customs managing the General Order Merchandise process in a manner that maximizes the amount of revenue collected?

GOVERNMENT PERFORMANCE AND RESULTS

Issue Area: Results Act Implementation

Contact Person: Ken Clarke, Director of Evaluations/GPRA, (202) 283-1607

Title: ATF and Customs CrossCutting Measure Reliability ✓

Background: Under the Government Performance and Results Act (GPRA) of 1993, every major Federal agency must determine its basic mission and goals, how to achieve the goals, and how to measure success in achieving those goals. GPRA forces a shift in how agencies have traditionally measured their results—from output-oriented measures to outcome-oriented measures. ATF and Customs have been actively engaged in developing performance measures for their various activities. One area of commonality between the two bureaus is that they both collect revenue. Admittedly, the revenue is different in that Customs primarily collects duties on imported merchandise whereas ATF primarily collects excise taxes on alcohol, tobacco and firearms/ammunition products. Nonetheless, the measure of success in collecting the revenue has a similar goal—collecting all the revenue that the Government is due.

Our initial review of ATF's and Customs' performance measures for collecting revenue found differences that raised questions. Why should these differences exist? Are there measures that one bureau has that may be beneficial to the other? For example, Customs measures the compliance rate of its collection efforts through a process of compliance measurement testing. By measuring this compliance rate, Customs is able to project the amount of revenue that is not being collected that should be. ATF, on the other hand, does not have this type of measure. Rather, ATF measures the revenue collected and the return on investment of collecting the revenue by comparing revenue collected to resources expended to collect it.

Audit Objective/ Key Question: What efforts have been taken by ATF and Customs to cooperate in developing performance measures regarding revenue collection to meet Results Act requirements?

Title: BPD Compliance with the Results Act (Carryover from FY 1999) ✓

Background: Requirements for strategic planning and performance based budgeting within Federal agencies are set forth by the Results Act. Key to successful implementation of the Results Act is data that is reliable and valid, so that adequate assessment of performance may be made.

Audit Objectives/Key Questions: Do BPD's information systems regarding performance measures produce data that is reliable and valid?

Due to resource constraints, OIG program auditors rather than the OIG Evaluations/GPRA Group will perform this project. Contact Ken Clarke for further information.

Issue Area: Results Act Implementation

Contact Person: Ken Clarke, Director of Evaluations/GPRA, (202) 283-1607

Title: BEP Measure Validity (Carryover from FY 1999) ✓

Background: Requirements for strategic planning and performance based budgeting within Federal agencies are set forth by the Results Act. Key to successful implementation of the Results Act is a reliable performance measure reporting process that is capable of providing accurate and valid information.

Audit Objectives/ Key Questions: What efforts have been made to build performance data collection into the processes that govern daily BEP operations? What baseline and/or historical trend data are being used to define performance goals? Have systems been structured to include the mission and goals of BEP, specific strategies for achieving objectives, and measures of progress?

Title: Customs Performance Data for Enforcement ✓

Background: Requirements for strategic planning and performance based budgeting within Federal agencies are set forth by the Results Act. Key to successful implementation of the Results Act is a reliable performance measure reporting process that is capable of providing accurate and valid information.

Audit Objective/ Key Question: Has Customs adequately ensured that performance information reported under the Results Act for enforcement activities is valid and reliable?

Title: Customs Performance Measures for Enforcement Activities ✓

Background: Requirements for strategic planning and performance based budgeting within Federal agencies are set forth by the Results Act. Key to successful implementation of the Results Act is a reliable performance measure reporting process that is capable of providing accurate and valid information.

Audit Objective/ Key Question: Are the performance measures relevant? Are crosscutting issues adequately coordinated with other agencies?

Title: Customs Performance Measures for Commercial Activities (Carryover from FY 1999) ✓

Background: Requirements for strategic planning and performance based budgeting within Federal agencies are set forth by the Results Act. Key to successful implementation of the Results Act is a reliable performance measure reporting process that is capable of providing accurate and valid information.

Audit Objective/ Key Question: Are the performance measures relevant? Are crosscutting issues adequately coordinated with other agencies?

Due to resource constraints, OIG program auditors rather than the OIG Evaluations/GPRA Group will perform this project. Contact Ken Clarke for further information.

Issue Area: Results Act Implementation

Contact Person: Ken Clarke, Director of Evaluations/GPRA, (202) 283-1607

Title: Customs Outbound Performance Measure Data Reliability ✓

Background: Requirements for strategic planning and performance based budgeting within Federal agencies are set forth by the Results Act. Key to successful implementation of the Results Act is a reliable performance measure reporting process that is capable of providing accurate and valid information.

Audit Objectives/ Key Questions: What efforts have been made to build performance data collection into the processes that govern daily Customs enforcement operations? What baseline and/or historical trend data are being used to define performance goals? Have systems been structured to include the mission and goals of Customs, specific strategies for achieving objectives, and measures of progress?

Title: DO Performance Reporting (Carryover from FY 1999) ✓

Background: Treasury's performance plan falls short in identifying data limitations and their implications for the reliability of the performance information. In addition, work performed by the OIG and GAO continues to show that financial and information management systems are out of date and incapable of meeting needs related to financial reporting and program costs. As Treasury implements the Results Act, the cost of data collection efforts has to be balanced against the need to ensure that the collected data are complete, accurate, and consistent enough to document performance and support decisions made at various bureau and office levels.

Evaluation Objectives/ Key Questions: Are systems collecting sufficiently complete, accurate and consistent data to adequately track Results Act performance plans? How can the process be improved?

Title: FinCEN Strategic Planning (Carryover from FY 1999) ✓

Background: Requirements for strategic planning and performance based budgeting within Federal agencies are set forth by the Results Act. FinCEN is a network, and a link between law enforcement, the financial and regulatory communities, that is becoming a leader in international efforts to build effective counter-money laundering policies and cooperation throughout the world.

Evaluation Objectives/ Key Questions: What are the strengths and/or weaknesses of FinCEN's strategic planning process relative to the goals and requirements set forth by the Results Act? To what extent does FinCEN's strategic planning process effectively and efficiently accommodate Treasury, Congressional, and/or other important stakeholder and customer needs/concerns?

Title: Mint COINS Measure Validity (Carryover from FY 1999) ✓

Background: Requirements for strategic planning and performance based budgeting within Federal agencies are set forth by the Results Act. Key to successful implementation of the Results Act is a reliable performance measure reporting process that is capable of providing accurate and valid information.

Audit Objectives/ Key Questions: What efforts have been made to build performance data collection into COINS

Due to resource constraints, OIG program auditors rather than the OIG Evaluations/GPRA Group will perform this project. Contact Ken Clarke for further information.

and other processes that govern daily Mint operations? What baseline and/or historical trend data are being used to define performance goals? Has COINS been structured to include the mission and goals of the Mint, specific strategies for achieving objectives, and measures of progress?

Issue Area: Results Act Implementation

Contact Person: Ken Clarke, Director of Evaluations/GPRA, (202) 283-1607

Title: OCC Strategic Planning (Carryover from FY 1999) ✓

Background: Requirements for strategic planning and performance based budgeting within Federal agencies are set forth by the Results Act. OCC is responsible for overseeing the safety and soundness of Federally chartered commercial banks and community banks.

Evaluation Objectives/ Key Questions: What are the strengths and/or weaknesses of OCC's strategic planning processes relative to the goals and requirements set forth by the Results Act? To what extent do OCC's strategic planning processes effectively and efficiently accommodate Treasury, Congressional, and/or other important stakeholder and customer needs/concerns?

Title: OCC Performance Measure Relevance and Validity (Carryover from FY 1999) ✓

Background: Requirements for strategic planning and performance based budgeting within Federal agencies are set forth by the Results Act. Key to successful implementation of the Results Act is a reliable performance measure reporting process that is capable of providing accurate and valid information.

Audit Objectives/ Key Questions: What efforts have been made to build performance data collection into the processes that govern daily OCC operations? What baseline and/or historical trend data are being used to define performance goals? Have OCC's and systems been structured to include their mission and goals, specific strategies for achieving objectives, and measures of progress? Are OCC's performance measures valid for obtaining performance goals?

Title: OCC and OTS CrossCutting Performance Measure Coordination ✓

Background: Because OCC and OTS have similar missions and have frequently been discussed in terms of a consolidated organizational entity, it would be wise to develop performance measures that are compatible between the two bureaus.

Audit Objectives/ Key Questions: What efforts have been taken by OCC and OTS to cooperate in developing performance measures to meet Results Act requirements? What more can the two bureaus do to bring their performance measures into harmony with each other?

Title: Secret Service Strategic Planning ✓

Background: Requirements for strategic planning and performance based budgeting within Federal agencies are set forth by the Results Act. Key to successful implementation of the Results Act is a reliable performance measure reporting process that is capable of providing accurate and valid information.

Due to resource constraints, OIG program auditors rather than the OIG Evaluations/GPRA Group will perform this project. Contact Ken Clarke for further information.

Evaluation Objectives/Key Questions: What efforts have been made to build performance data collection into the processes that govern daily Secret Service operations? What baseline and/or historical trend data are being used to define performance goals? Have systems been structured to include Secret Service's mission and goals, specific strategies for achieving objectives, and measures of progress?

DEBT COLLECTION AND FEDERAL PAYMENT SERVICES

Issue Area: Debt Collection

Contact Person: Maria Carmona, Acting Director of Audit, (202) 283-1591

Title: FMS Implementation of Debt Collection Improvement Act Regulations ✓

Background: The Debt Collection Improvement Act of 1996 authorizes the Secretary of the Treasury to collect non-tax delinquent owed to the Federal government. FMS is responsible for the collection of the delinquent debts. To collect these debts, FMS applies a variety of debt collection tools and issues regulations. According to testimony of the Treasury Fiscal Assistant Secretary before the Subcommittee on Government Management, Information and Technology of the House Committee on Government Reform and Oversight, FMS has made tremendous effort in issuing regulations necessary to facilitate the implementation of the DCIA. FMS published 10 regulations since the last hearing on June 15, 1999. Also, FMS finalized regulations to facilitate the offset program, administrative wage garnishment, transfer debts to Treasury for collection, and bar delinquent debtors from obtaining Federal loans, loan insurance or guarantees. As a leading agency to collect delinquent debts owed to the Federal government, FMS has the responsibility to issue regulations that must contain debt collection requirements as specified in the DCIA.

Audit Objectives/Key Questions: Has FMS issued debt collection regulations to comply with all of the DCIA requirements? What is the status of any unimplemented regulations? Do these regulations satisfy the requirements set forth in DCIA to collect delinquent debt owed to the Federal government?

Results Act Related Work: The audit would also examine FMS' success in achieving its performance goal: By fiscal year 2002, FMS manages a consolidated debt management function that will concentrate federal delinquent debt collection efforts and produce improved results. We will examine two performance measures: (1) increased collection of debts referred to Treasury from FY 98 baseline \$1.988 billion by \$8.5 million in FY 1999 and \$93.1 million in FY 2000 through the addition of more federal payment types and agency referrals into centralized administrative offset program by FY 2000; and (2) increase the amount of delinquent debt that is referred to Treasury for collection, as compared to the amount of delinquent debt that is eligible for referral. The total percentage will reach at least 75% by FY 2000.

Issue Area: Debt Collection

Contact Person: Maria Carmona, Acting Director of Audit, (202) 283-1591

Title: Treasury's Offset Program (TOP) ✓

Background: TOP is a centralized debt collection program developed by the Financial Management Service (FMS). The program is operated through its Regional Financial Centers. TOP is designed to assist agencies in the collection of approximately \$60 billion of delinquent debt owed to the Federal government. FMS is responsible for disbursing over 850 million payments a year on behalf of over 400 Federal agencies. TOP uses this process to match Federal payments against debts owed to the Government. When a match occurs and a payment recipient who also owes a Federal debt is identified, the payment is reduced or offset by the amount of the debt or payment. Under TOP, before a payment is disbursed to a payee, FMS will compare the payee information with debtor information in a database operated by FMS. The delinquent debt information remains in the debtor data base for continuous offset until debt collection activities for that debt is terminated because of full payment, compromise, write-off or other reasons justifying termination. The DCIA requires that agencies notify the Treasury of all non tax debts over 180 days delinquent for the purpose of offsetting Federal payments, including tax refunds, and provides authority for disbursing officials to conduct payment offsets. In January 1999, FMS merged the Tax Refund Offset and the Treasury Offset programs. System enhancements included matching both social security numbers on joint tax returns and allowing creditor agencies to add and update debt records on a continuous basis.

Audit Objectives/Key Questions: Is TOP effective in implementing all DCIA offset provisions, such as offsetting tax refunds, Federal salaries, and other Federal payments streams to recover delinquent debt and preventing the release of payments to delinquent debtors? Does TOP provide a cost effective means to recover delinquent debt owed to the Federal government? Does TOP generate useful management information reports to measure performance? Does FMS adequately communicate with program agencies to ensure that debt balances are current and remain active until the debt has been fully satisfied?

Results Act Related Work: The audit would also examine FMS' success in achieving its performance goal: By fiscal year 2002, FMS will manage a consolidated debt management function that will concentrate federal delinquent debt collection efforts and produce improved results. We will examine two performance measures: (1) Increased collection of debts referred to Treasury from FY 1998 baseline \$1.988 billion by \$8.5 million in FY 1999 and \$93.1 million in FY 2000 through the addition of more federal payment types and agency referrals into centralized administrative offset program by FY 2000; and (2) Increased amount of delinquent debt that is referred to Treasury for collection, as compared to the amount of delinquent debt that is eligible for referral. Total percentage will reach at least 75% by FY 2000.

Issue Area: Federal Government Payments

Contact Person: Maria Carmona, Acting Director of Audit, (202) 283-1591

Title: FMS Vendor Express Program ✓

Background: Since FMS implemented the Vendor Express Program, check payments have continued to diminish. As of the end of Fiscal Year 1998, 58 percent of vendor payments were made electronically. The Vendor Express Program electronically transfers money and remittance information through the Automated clearinghouse (ACH) network to commercial payees of Federal agencies. FMS recently enhanced the Vendor Express Program with additional electronic data interchange (EDI) capabilities to provide improved payment services that benefit both Federal agencies and the commercial payees. The Debt Collection Act of 1996 mandated the use of electronic funds transfer (EFT) for Federal payments. Anyone doing business with the Government is to be paid electronically rather than a paper check. Each year FMS disburses in excess of \$1 trillion as it issues more than 860 million non-defense payments to a wide variety of recipients, such as Social Security, IRS tax refunds, and Veterans Affairs benefits. Approximately 3 out of 4 of these transactions are issued by EFT, most through the Direct Deposit program, while the remainder (over 200 million annually) are disbursed by check.

Audit Objectives/Key Questions: Has FMS' Vendor Express Program been effective in reducing the number of manual checks issued to vendors? What associated problems have surfaced as a result of using this electronic payment process? Has FMS assessed its Vendor Express Program to determine cost effectiveness when check payments instead of electronic payments must be made? Has FMS incorporated GPRA and Debt Collection Act requirements in its internal and management controls for administering the vendor program?

Results Act Related Work: The audit would also examine FMS' success in achieving its performance goal: By fiscal year 2002, there is a world-class delivery of all federal government payments and associated information to their ultimate destination. We will examine three performance measures: (1) by fiscal year 2000, dollar savings by reducing the number of check payments - \$15.5 million; (2) Percentage of check payments released on time – 99.9993 percent; and (3) Percentage of payment customers indicating an overall rating of satisfied or better – 99 percent.

Issue Area: Federal Government Payments

Contact Person: Maria Carmona, Acting Director of Audit, (202) 283-1591

Title: FMS Check Claims Processing Follow-up ✓

Background: The Financial Management Service (FMS) is responsible for disbursing Federal Government payments such as IRS tax refunds, Department of Veteran Affairs disability payments, and Social Security benefits. Checks are printed and mailed, and Electronic Funds Transfer (EFT) payments are sent to Federal Reserve Banks by one of FMS' six Regional Financial Centers (RFC) located around the country. Occasionally, a replacement check is requested because the payee claims the check was lost, stolen, or destroyed. The payee reports such a claim to the issuing agency, and the issuing agency will advise the RFC which processed the check of the claim. For example, a taxpayer missing a tax refund check would notify the IRS. The IRS then notifies an RFC. The RFC then verifies the check's existence and forwards the claim to the Financial Processing Division for further processing. To ensure FMS promptly serves its customers, FMS established a goal to take "first action" on each case within 14 days of initial receipt at the RFC, excluding the time for the payee to return the claim package. During fiscal year 1995, the Check Claims Branch processed over 109,000 check claims; 20 percent (22,114) were attributed to the IRS.

The Office of Inspector General's audit report *FMS' Internal Controls Over Processing Refunds* (OIG 97-025) dated January 7, 1997, identified several areas for improvement. For example, the audit found opportunities for FMS to improve its timeliness in providing replacement checks to taxpayers. Additionally, check claim records were unreliable.

Audit Objectives/Key Questions: Is FMS timely processing check claims? Does FMS have adequate records of significant activity on check claims?

Results Act Related Work: The audit would also examine FMS' success in achieving its performance goal: By fiscal year 2002, there is a world-class delivery of all federal government payments and associated information to their ultimate destination. We will examine one performance measure: Percentage of forgery and non-receipt check claims processed within current FMS standards (14 days or fewer) –90%.

Issue Area: Federal Government Payments

Contact Person: Maria Carmona, Acting Director of Audit, (202) 283-1591

Title: FMS Payments and Loans to Ineligible Recipients ✓

Background: FMS makes over 850 million payments of Federal funds to various agencies, businesses and individuals on an annual basis. These payments represent over \$1 trillion. Included in these payments are Federal benefit recipients who receive Social Security, IRS tax refunds, Veterans benefits, Federal retirement, Railroad Retirement, Black Lung benefits, etc. During FY 1997, FMS made payments of more than \$785 billion to Federal benefit recipients. Ineligible recipients of Federal benefit payments and loans include fugitives and certain felons and delinquent debtors. At the end of calendar year 1997, the Justice Department reported that approximately 700,000 fugitives from justice were at large in the United States. It is possible that many of these fugitives may be receiving Federal benefit payments. Fugitives are ineligible to receive Federal benefit payments. Along with this, convicted felons are prohibited from receiving certain Federal benefit payments, depending on the nature of the conviction. One provision of the Debt Collection Improvement Act of 1996 (DCIA) prohibits a person from obtaining any Federal financial assistance in the form of a loan (other than a disaster loan) or loan insurance or guarantee if the person has an outstanding debt (other than a debt under the Internal Revenue Code of 1986) with any Federal agency which is in a delinquent status. Additionally, the Congressional Record on the DCIA and a proposed 1998 ruling address extending the barring provision to any Federal permit or Federal license required by law.

Audit Objectives/Key Questions: Does FMS have an effective process to prevent issuing Federal benefit and loan payments to fugitives, felons, and delinquent debtors? Has FMS coordinated with other agencies to identify and share fugitive, felon, and delinquent Federal debtor information? Is the fugitive, felon, and delinquent Federal debtor information in a format that agencies find useful? Does FMS have a process to recover payments made to ineligible recipients?

Title: FMS Deposit Fund Accounts (Carryover from FY 1999) ✓

Background: FMS is the United States Government's central financial manager. Issuing payments is the primary financial operation of FMS. Provisions in the Act include requiring the cancellation of all Treasury checks that were outstanding as of October 1, 1989 and the cancellation of all subsequent checks not negotiated within 1 year of issuance. In addition, the Act delineated the purposes for which proceeds on non-negotiated checks issued before its enactment and after its enactment could be used. Checks that were issued before October 1, 1989 and remained outstanding for more than 12 months should have been cancelled by the FMS Commissioner no later than April 1, 1991. The proceeds should have been applied to eliminate the balances in accounts that represented uncollectible accounts receivable and other costs associated with the payment of checks and check claims by the Department of the Treasury on behalf of all payment certifying agencies. Any remaining proceeds should have been deposited to the miscellaneous receipts of the Treasury. Checks issued on or after October 1, 1989 that remain outstanding for more than 12 months shall be cancelled by the Commissioner. The proceeds shall be returned to the agency that authorized the issuance of the check and credited to the appropriation or fund account initially charged for the payment.

The Office of Inspector General received a request to review the deposit fund accounts established and maintained for the purpose of implementing the ACT. The Department of Treasury is currently a defendant in a Federal class action lawsuit relating to the Individual Indian Monies trust fund.

Audit Objectives/Key Questions: Does FMS have adequate procedures for implementing the Act? Did FMS adhere to the Act's requirements regarding cancelled checks? Does FMS notify the certifying agency of cancelled checks?

FINANCIAL SERVICES

Issue Area: Electronic Benefits Transfer/Electronic Funds Transfer

Contact Person: Maria Carmona, Acting Director of Audit, (202) 283-1591

Title: FMS Implementation of the Nationwide EBT Program ✓

Background: The Debt Collection Improvement Act of 1996 (DCIA) requires that all federal payments, except tax refunds and those subject to waiver, be made electronically by January 1, 1999. In addition, Vice President Gore's September 1993 *Report of the National Performance Review, From Red Tape to Results*, called for the rapid development of a nationwide system to deliver Government benefits electronically. FMS has been working with the states to link the delivery of Federal payments to State Electronic Benefit Transfer programs to allow recipients to receive Federal benefit payments on the same card they receive state benefits. All states have participated in a statewide EBT pilot. Treasury estimates that over 2 million recipients receive both Federal and state benefits. It is FMS' goal to fully implement EBT by the year 2001.

Audit Objective/Key Question: Is FMS effectively addressing the needs of the individuals who do not have bank accounts in order for them to receive electronic payments?

Results Act Related Work: The audit would also examine FMS' success in achieving its performance goal: By fiscal year 2000, to have world-class delivery of all Federal government payments and associated information to their ultimate destination. We will examine two performance measures: (1) Percentage of transmissions of value (payments) and associated information made electronically – 75%; and (2) Number of states in which direct Federal EBT will be retrofitted – 20.

FINANCIAL MANAGEMENT

Issue Area: FMS' Ability to Produce Government-wide Financial Statements

And

Issue Area: Treasury's Ability to Produce Consolidated Financial Statements

Contact Person: Tony Elachkar, Director of Audit, (202) 927-5781
Tom Moschetto, Director of Audit, (202) 927-5074

Title: Audits of Department-wide Consolidated Financial Statements and Selected Treasury Bureaus' Financial Statements ✓

Background: The OIG's goal is to implement the CFO Act's and GMRA's financial statements audit requirements. The OIG continues to support the Department in its efforts to produce Treasury-wide financial statements by (1) auditing major bureaus and entities and (2) providing advice on the consolidation process and reporting format. Planned FY 2000 financial statement and financially related audits should continue to provide Department and bureau management officials with critical information and recommendations to help them prepare reliable Treasury-wide financial statements, develop more effective and reliable financial accounting systems, correct internal control weaknesses, and improve mission-related operations. In addition to bureaus' and entities FY 1998 financial statements audited in FY 1999, we will audit the annual financial statements related to the District of Columbia pension liabilities assumed by the Department. As in prior years, a combination of OIG, GAO and contractor resources will be used to meet the FY 1999 financial statements audit requirements for the Department and its component bureaus and entities. The OIG will issue approximately 20 financial statement and related financial audit reports during FY 2000.

Audit Objectives/Key Questions: Do the financial statements prepared by the Department and Treasury bureaus represent accurately their financial position? Are Department and bureau managers taking action to correct identified financial weaknesses so as to better manage their operations?

ENFORCEMENT

Issue Area: Criminal Enforcement/Narcotics Interdiction (Customs)

Contact Person: Charles Mataya, Director of Audit, (713) 706-4613

Title: Customs Intelligence Program ✓

Background: In support of Customs Southwest Border drug interdiction initiative, Customs designed an intelligence system to respond to the requirements of its field offices. The system was built around the Intelligence Collection Analysis Team (ICAT) concept. The ICAT program includes the entire southern tier of the U.S. from San Diego to San Juan with a focus on the development of intelligence through informants, document exploitation, and surveillance. Another intelligence system that has been formed is the Cargo Analysis Research Investigative Team (CARIT). CARIT is a joint venture, between the Office of Investigations and the Office of Field Operations, functioning as a multi-discipline team, utilizing each member's different functional areas to achieve the common goals of identifying, interdicting and investigating narcotics violations in the commercial environment

However, Customs' in-house intelligence collection capability currently relies heavily on human intelligence, which largely comes from Customs inspectors and investigators who obtain information during their interdiction and investigation activities. Customs inspectors have the option to selectively identify those persons, cargo, and conveyances they consider to be high risk for drug smuggling. This is generally done through the use of databases available to Customs, such as the Treasury Enforcement Communications System (TECS). In March 1998, Treasury's Office of Inspector General reported that Customs lacked adequate security controls to govern the unauthorized modification and deletion of data in law enforcement activities such as lookout records. In addition, a recent OIG audit found that Customs inspection processes are too reliant on inspector experience, as opposed to proactive intelligence. One of the primary causes is that intelligence is not always freely disseminated among Customs disciplines. Improved intelligence sharing can lead to an increase in interdiction effectiveness, better tactical response time and investigative leads.

Audit Objective/ Key Question: Has Customs created the capability to communicate actionable intelligence on narcotics and contraband smuggling to the proper sources?

Issue Area: Criminal Enforcement/Narcotics Interdiction (Customs)

Contact Person: Charles Mataya, Director of Audit, (713) 706-4613

Title: Customs Controls over Export of Military Technology to Countries of Concern ✓

Background: Language included in the Senate legislation S.1059, National Defense Authorization Act for Fiscal Year 2000, Section 1410, requires a review by the five departments' Inspectors General. The review will consist of a general examination of countermeasures against acquisition by "countries and entities of concern" of militarily sensitive technology." Such countries and entities that meet one or more of three criteria: (a) the State Department has identified them to be supporting terrorism, (b) they have nuclear weapons capability but are not members of the North Atlantic Treaty Organization, and (c) they are an entity engaged in terrorism. In FY 2000, the Inspectors General of the Departments of State, Defense, the Treasury, Commerce, and the Central Intelligence Agency shall submit a report to Congress. This report will focus on the adequacy of current export control and counterintelligence measures.

Audit Objectives/ Key Questions: Do Customs' intelligence and export enforcement controls specifically target unauthorized exports of military sensitive technologies and items to countries of concern, and, if so, have they been effective?

Title: Customs Air and Marine Interdiction Program ✓

Background: The Office of National Drug Control Policy (ONDCP) has designated Customs as the lead federal agency responsible for interdicting the movement of illegal drugs into the United States. Drug smuggling organizations have access to huge sums of money to purchase well-equipped aircraft, vessels, and sophisticated equipment to evade detection and to elude interdiction efforts. In order to disrupt this threat, Customs has established an aviation and marine interdiction program. the objectives of the air and marine programs are to detect, sort, track and apprehend aircraft and vessels involved in smuggling, and provide assistance to other Customs enforcement efforts and other law enforcement agencies. The air and marine interdiction programs were recently combined at the Headquarters level in an effort to achieve better results through closer coordination of assets. Customs has 152 aircraft and 236 vessels in its inventory. These assets must be strategically deployed to meet a geographically shifting drug threat.

Audit Objectives/Key Questions: Are Customs air and marine resources (a) adequate to meet program requirements, (b) appropriately deployed, (c) effectively used, and (d) properly maintained? Does Customs prevent the smuggling of narcotics into the United States by creating an effective interdiction, intelligence and investigative capability that disrupts and dismantles smuggling organizations?

Issue Area: Criminal Enforcement/Narcotics Interdiction (Customs)

Contact Person: Charles Mataya, Director of Audit, (713) 706-4613

Title: Customs' Inspection of Domestic Crude Oil Shipments ✓

Background: Alaskan crude oil is shipped to the Pacific Coast of the Panama Canal Zone (Zone), unloaded at an off-shore pumping facility, transported across the Zone via pipeline, and loaded onto vessels on the Atlantic coast for delivery to U.S. and possibly refineries in other countries. There are many oil storage facilities on islands in the Atlantic region near Panama. Customs laboratories have developed a worldwide database of crude oil characteristics that can "fingerprint" the country of origin of various crude oils. Sample testing of domestic crude oil could readily detect the origin of a particular oil shipment. However, Customs does not test domestic oil shipments, only foreign imports—and then only a limited amount of these. Foreign crude oil could possibly be loaded on domestic or foreign vessels for delivery to U.S. refineries as domestic crude for refinement and distribution. The vessels could make a stop in Panama or the region to establish a presence in that area and the perception that the oil they are transporting is domestic crude. Due to minimal Customs' testing, it is possible that foreign crude oil could be shipped to the U.S. as domestic crude via the Panama Canal zone area, avoiding payment of millions of dollars in duty and other foreign import restrictions.

Audit Objective/ Key Question: Is foreign oil being smuggled into the U.S. undetected?

Title: Customs Interdiction and Funding in Puerto Rico ✓

Background: The Office of National Drug Control Policy (ONDCP) identified accountability issues in their review of Puerto Rico. Subsequently, an OIG audit in Puerto Rico uncovered numerous deficiencies in the administration of High Intensity Drug Trafficking Area (HIDTA) funds. A review of Customs administration of appropriated funds could reveal inadequacies similar to those uncovered in the audit of HIDTA management controls. Also, a management review conducted in September 1997 by the Management and Inspections Division of Customs Internal Affairs cited problems with the imprest fund, budget administration, HIDTA administration and property management. The Customs management review performed in September 1997, found that the Customs agents assigned to the HIDTA groups believed any further investigations to identify organizations and recipients of a smuggled narcotic shipments were the Drug Enforcement Administration's (DEA) responsibility. Additionally, the management review team found that electronic surveillance techniques such as dialed number recorders, tracking devices, and covert video equipment were not being used at all. Customs did not interact with the other HIDTA groups. As a result, the Puerto Rico SAC office may not adequately be fulfilling its mission to disrupt narcotics smuggling organizations.

Audit Objectives/ Key Questions: Is Customs using its resources, notably personnel and intelligence, to effectively identify, investigate, and prosecute narcotics smuggling? Are management controls sufficient to prevent or detect misuse of appropriated, special, or trust funds and does Customs properly account for these funds?

Issue Area: Criminal Enforcement/Narcotics Interdiction (Customs)

Contact Person: Charles Mataya, Director of Audit, (713) 706-4613

Title: Customs High Technology Equipment (Carryover from FY 1999) ✓

Background: Technology has a vital role in Customs counterdrug and other enforcement responsibilities. One of Customs' objectives contained in their Strategic Plan is to: "select, develop, deploy, and support effective, reliable, and affordable technologies to aid inspections and other Customs processes." Customs has an array of "gadgets" that can, for example, find hidden compartments where drugs may be stashed, scan license plates to see if a car is stolen, and help inspectors see people concealed in cars and trucks. One instrument can determine whether a liquid inside a container may contain dissolved drugs. Another device can tell whether a vehicle is carrying radioactive material and indicates whether it might be in a nuclear bomb or medical waste. Other items such as automated license plate readers; full-body x-ray machines; x-ray machines used for trucks; particle (trace) detectors, and so forth are intended to be deterrents and/or make inspections faster and more thorough. Customs deploys over 1600 items of non-intrusive inspection technology primarily for the inspection of inbound cars, trucks, containers and cargo. A lot of the research and development of this equipment is done by the Department of Defense. Though electronic devices are proving to be increasingly effective, equipment is often quite costly, can be flawed, and may not be distributed to the best locations.

Audit Objective/Key Question: Does Customs properly justify, utilize, and deploy high-priced technology equipment in a manner that allows for effective enforcement efforts?

Issue Area: Criminal Enforcement

Contact Person: Roberta Rickey, Director of Audit, (312) 886-6300

Title: ATF Case Targeting and Productivity (Carryover from FY 1999)

Background: ATF investigative priorities are firearms, arson and explosives. Alcohol and tobacco have a lower profile. Also, ATF wants to develop large complex cases under Federal jurisdiction. They want to open and develop cases that will be accepted by the U.S. Attorney's Office. They want to avoid cases that are under local jurisdiction and are "one person, one gun" cases. Each field office may have different priorities based on the needs and crime trends in their geographical area. Field offices independently decide which and how many cases to open. A survey disclosed that field offices have varying levels of productivity. An audit could also review if the staffing is dedicated to high level, complex prosecutable cases

Audit Objectives/Key Questions: Is ATF effectively and efficiently developing quality cases against criminal organizations and violent criminals? Is ATF developing cases in alignment with the priorities identified in the Strategic Plan? Is the number of cases in alignment with the staff?

Results Act Related Work: The audit would also examine ATF's compliance with two performance measures: (1) denying criminals access to firearms; and (2) removing violent offenders from our communities.

Issue Area: Criminal Enforcement

Contact Person: Roberta Rickey, Director of Audit, (312) 886-6300

Title: Treasury Counterterrorism Coordination (Carryover from FY 1999)

Background: In June 1995, the President issued Presidential Decision Directive (PDD) 39, the central blueprint for the counterterrorism strategy. In May 1998, the President issued PDD 62 that reaffirmed PDD 39 and further articulated responsibilities for specific agencies. The amount of federal funds being spent on programs and activities to combat terrorism has been unknown and difficult to determine. Identifying and tracking terrorism related governmentwide spending with precision is difficult for several reasons, such as the lack of a uniform definition of terrorism and the inclusion of these expenditures within larger categories that do not readily allow separation. GAO estimated that the Department of the Treasury spent approximately \$1.2 billion, (\$552 million in 1996 and \$682 million in 1997), on terrorism related activities. Treasury requested \$838 million for FY '00. Neither OMB nor GAO can identify specific bureau activities that may overlap or interagency duplication. The required Treasury GPRA draft plan is deficient according to the GAO. Three Treasury bureaus; U.S. Secret Service, U.S. Customs Service, and the Bureau of Alcohol, Tobacco and Firearms are involved in terrorism related activities that may overlap.

Audit Objectives/Key Questions: Has the Department of Treasury: (1) established priorities for counterterrorism; (2) established a methodology for collecting bureau level counterterrorism program financial and performance data; (3) coordinated goals and objectives to ensure effective prioritization; and (4) minimized bureau level program overlap.

Results Act Related Work: The audit would also examine ATF's, Customs' and Secret Service's compliance with two performance measures: (1) fighting violent crime; and (2) strengthening the capability to fight terrorist threats to the U.S.

Title: ATF's Investigations of Referrals from the National Instant Criminal Background Check System

Background: The Brady Law provides that, 30 days after the Attorney General notifies Federal firearms licensees (FFLs) that NICS has been established, no FFL shall transfer a firearm (handgun or long gun) to an individual (nonlicensee) without first making inquiry into NICS as established by Section 103 of the Brady Handgun Violence Protection Act. The NICS system went into effect on November 30, 1998. With the establishment of the NICS system under the law, as stated above, ATF expected to receive more than 120,000 referrals per year from the FBI or State officials on prohibited persons who attempt to purchase firearms from FFLs and falsify ATF's "Firearms Transaction Record (F 4473). These individuals will be identified through required queries of the NICS database. The number of referrals now estimated to be received far exceeds the FBI's original projections. Furthermore, the number of referrals that can realistically be investigated by ATF far exceeds ATF's current special agent staffing.

Audit Objectives/Key Questions: Does ATF accurately track and conduct sufficient research on referrals to determine whether an individual's criminal history warrants investigation? Are referrals to field offices made timely and in accordance with ATF criteria? Do field offices timely and uniformly investigate referrals provided from ATF Headquarters?

Issue Area: Criminal Enforcement

Contact Person: Roberta Rickey, Director of Audit, (312) 886-6300

Title: Secret Service's Case Targeting & Productivity

Background: Secret Service has two primary missions: protective operations and investigative operations. They cannot control the amount of time they spend on protective operations. Their amount of time is highly dependent upon how many trips their protectees take and how many foreign dignitaries will visit the U.S. For example many foreign dignitaries attended the Olympic Games in Atlanta, and the 50th anniversary celebration of the UN in New York, which requires the Service to provide protective detail to these individuals. Also, the presidential election campaigns require an inordinate amount of resources by the Service. On the other hand, the Service has more discretion of how to use the remaining time on investigative operations. Investigations include counterfeiting, money laundering, and fraud in the areas of computers, telecommunications, and financial institutions. The remainder of their time is spent on investigative operations. In the investigative area, their two priorities are counterfeiting and financial crimes. However, the percentage of cases received in these categories is more than the percentage of hours expended in these categories.

Audit Objectives/Key Questions: Is the Secret Service conducting effective investigations with the available resources? Are Secret Service's resources aligned with the priorities aligned in the Strategic Plan?

Results Act Related Work: The audit would also examine ATF's, Customs' and Secret Service's compliance with two performance measures: (1) total criminal cases closed; and (2) percent of cases accepted for federal prosecution.

Title: ATF National Laboratories (Carryover from FY 1999)

Background: ATF laboratories provide support for regulatory and enforcement activities. The laboratory personnel assist in firearms, bombings and arsons crime scene processing and on-site evidence examinations. They also perform testing and analysis of regulated commodities to ensure product safety and integrity. Law enforcement labs entered the spotlight when the U.S. Department of Justice OIG found that the FBI laboratory used poor evidence gathering techniques. Unlike the FBI lab, ATF's labs are certified by an outside entity. Scientific and administrative reviews have been conducted at the ATF labs; however, an effectiveness review is needed. the labs are in multiple locations with different missions and may serve multiple clients. Some of those clients are State and local law enforcement agencies. ATF may be accepting work from outside agencies before fulfilling all internal requests.

Audit Objectives/Key Questions: Is the labs' work in alignment with ATF's priorities? Is the work in alignment with the staffing at the different lab locations? Are the labs meeting customers' needs? Are the labs meeting ATF's needs before accepting work from State and local law enforcement agencies? Should ATF charge outside agencies for the labs' services?

Due to resource constraints, the Director for ATF and Customs Commercial Audits is performing this audit. Contact Roberta Rickey for further information.

Issue Area: Criminal Enforcement

Contact Person: Roberta Rickey, Director of Audit, (312) 886-6300

Title: ATF Explosives Inspection Follow-up

Background: Between Fiscal Years 1994 through 1998, ATF increased the number of compliance inspections it conducted by 136 percent from 3,733 to 8,811. During the same period, the number of violations ATF's inspectors detected during those inspections only increased by 111 percent, from 1,344 to 2,831. Additionally, the lack of an effective database does not allow ATF to determine which, if any, of these violations pose a threat to the public safety. According to data provided by ATF's Public Safety Branch, of the 8,811 inspections ATF conducted in FY 1998, they did not issue any fines or penalties, and revoked or denied only 10 licenses and/or permits. In September 29, 1995, the OIG issued an audit report entitled, "Opportunities to Improve ATF's Explosives Licensing and Inspection Program," OIG-95-129. The audit determined ATF does not summarize inspection results regarding the seriousness of the violations or the corrective action taken to eliminate the violations. While the OIG conducted an audit in Fiscal Year 1999 regarding the issue of resolution of explosives violations, the audit did not address whether ATF is targeting its inspection resources to areas of higher concern.

Audit Objectives/Key Questions: Is ATF targeting explosives compliance inspections to those licensees or permittees posing the greatest risk to the public safety? Is ATF effectively allocating its resources within the explosives program? Should ATF re-allocate its explosives program resources to other areas such as protecting the revenue?

Results Act Related Work: One aspect of the audit will be a review of the Government Performance and Results Act performance measures associated with the explosives program. This audit will assess the relevance of the measures, and the reliability of the data ATF develops for reporting on performance.

ENFORCEMENT SUPPORT

Issue Area: Money Laundering Regulation and Technology

Contact Person: Barry Savill, Director of Audit, (202) 283-0151

Title: FinCEN Efforts to Deter and Detect Money Laundering in Casinos

Background: Today, close to \$500 billion a year is wagered at casinos in the United States. An estimated 125 million visitors each year gamble at government licensed casinos. In particular, there has been a rapid growth in riverboat and tribal casino gaming as well as card room gaming during the 1990s. As with the number of casinos, the amounts of money wagered and attendance has also increased. Therefore, there are more opportunities for individuals to launder their illegal profits in the fast-paced environment of casino gaming. In fact, the General Accounting Office cites in its January 1996 report on *Money Laundering: Rapid Growth of Casinos Make Them Vulnerable* that "the proliferation of casinos, together with the rapid growth of the amounts wagered, may make these operations highly vulnerable to money laundering."

In addition, the experience of law enforcement and regulatory officials suggests that the gambling environment can attract criminal elements involved in a variety of illicit activities, including fraud, narcotics trafficking and money laundering. With large volumes of currency being brought in and played by legitimate customers from throughout the United States and other countries, gaming can create a good "cover" for money launderers who are in possession of large amounts of currency. This review will provide valuable information to Treasury Department management regarding whether FinCEN has an effective strategy in place to deter or detect potential money laundering in casinos.

Audit Objectives/Key Questions: What action is FinCEN taking to deter money laundering in casinos (including offshore Gambling Cruise Ships)? Is FinCEN reviewing and analyzing the Currency Transaction Reports by Casinos to provide law enforcement officials with potential leads and case documentation to combat money laundering in casinos? What action does FinCEN take when casinos report suspicious activity?

Results Act Related Work: The audit would also examine FinCEN's performance in relation to its performance goal: designing, modifying and administering the BSA rules to provide useful law enforcement information.

BANKING AND FINANCIAL INSTITUTIONS

Issue Area: Maintaining a Sound National Banking System

Contact Person: Benny Lee, Director of Audit, (415) 977-8810

Title: OCC Material Loss Review of First National Bank of Keystone, Keystone, WVA (Carryover from FY 1999)

Background: The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), along with other regulatory enhancements, requires the Inspector General of the appropriate Federal banking agency to conduct a post-failure review of that agency's supervision of failed institutions. Section 131 of the Act requires an IG review when the failure results in a major loss to the insurance fund exceeding \$25 million, and 3 percent of the institution's total assets at the time of failure or when financial assistance was provided by the Federal Deposit Insurance Corporation. The IG report is to be completed within 6 months after the failure and delivered to the Comptroller General of the United States, the FDIC and any Member of Congress who requests a copy. Because OCC regulates national banks, the Treasury OIG is responsible for material loss reviews covering OCC supervised institutions.

On September 1, 1999, OCC closed the First National Bank of Keystone in Keystone, West Virginia. The FDIC was named receiver. OCC found \$515 million in loans carried on the bank's books that should have been removed after they were securitized and sold. As of June 30, 1999, Keystone reported approximately \$1.1 billion in assets and \$880.9 million in deposits.

Audit Objectives/Key Questions: Why did the failed bank's problems result in a material loss to the deposit insurance fund? Was OCC's supervision of the failed institution adequate? Did OCC take appropriate, timely and effective enforcement action against the institution when safety and soundness weaknesses were discovered? What recommendations can we make to OCC or Congress to avert future failures?

Title: OCC Bank Examiner's Conflict of Interest Follow-up

Background: In a prior audit the OIG reported several control weaknesses increasing the risk of actual or perceived ethics violations. Besides the normal follow-up audit procedures, the audit will be expanded to cover examiners that administratively report to Headquarters. The earlier OIG report only covered District examiners who are responsible for small community banks. The follow-up audit will also cover examiners responsible for "Large Banks", formerly referred to as "multi-national" banks. Large banks collectively account for over 65% of all national bank assets. In effect, these examiners may represent a large integrity risk than community banks.

Audit Objectives/Key Questions: Has OCC implemented the corrective actions to the prior OIG report entitled "*The Office of The Comptroller of the Currency Needs to Strengthen Conflict of Interest Controls Over Examiners Resigning for Employment with Banks.*" OIG-97-068, April 8, 1997? Are these actions effective? Do the actions apply adequately to non-examination staff that leaves OCC for employment with a national bank?

Issue Area: Maintaining a Sound National Banking System

Contact Person: Benny Lee, Director of Audit, (415) 977-8810

Title: OCC Examination of National Bank Trust Departments for Compliance with Bank Secrecy Act

Background: This audit will be the final in a series of planned OIG audits over Bank Secrecy Act (BSA) compliance. The trust department in a bank offers asset management services to a broad customer base. The accounts needing attention are those that the bank has little or no control over funds flows, aside from refusing the account or refusing to do the transactions. These include custodial accounts, non-discretionary agency accounts, revocable trust accounts, accounts with notes receivable, and accounts with closely held businesses. The systems of internal controls which prevent money laundering in the bank's trust department include: (1) efforts to know your customer, (2) identification of high risk accounts, (3) controls to avoid transactions with OFAC listed customers and countries, and (4) controls to detect suspicious activity and fund flows through accounts. The trust department also must ensure compliance with BSA regulations by maintaining a program of internal controls to ensure adherence to suspicious activity reporting and record keeping requirements of the BSA. Currently, OCC examination procedures address BSA compliance at the overall bank level but not specifically at the trust departments.

Audit Objectives/Key Questions: How is OCC evaluating the banks' ability to prevent and detect money laundering in its examination of trust department accounts? Are OCC examination procedures specific enough to properly assess the bank trust departments' compliance with the BSA and anti money laundering efforts? Is OCC coordinating with other regulators (e.g., state licensing agencies)?

Title: Treasury Streamlining Currency Transaction Reports (CTRs)

Background: The Bank Secrecy Act (BSA), Public Law 91-508, 84 Stat. 1114, is a principal weapon in the fight against money laundering. Enacted in October 1970 the Act requires financial institutions to file a CTR with FinCEN on every cash and other monetary transaction or series of transactions exceeding \$10,000. Congress is considering raising the threshold. CTRs are processed at the IRS Computing Center in Detroit. FinCEN is the government's custodian and manager of BSA information. In 1992 BSA was amended, and Treasury subsequently promulgated regulations requiring financial institutions to file a Suspicious Activity Report (SAR) when they know, suspect or have reason to suspect that a crime has occurred or that a transaction is suspicious. These reports are also filed at FinCEN and are used and by financial institution regulators and by law enforcement agencies to detect money laundering. Congress is considering increasing the CTR filing threshold of \$10,000 and changing the requirements for filing SARs. FinCEN's strategic plan emphasizes streamlining the CTR process, while shaping reporting system to make the available data more useful for law enforcement investigations into money laundering. The FinCEN strategic plan also includes a performance measure to reduce the number of SARs.

Audit Objective/Key Question: What effect would increasing the current \$10,000 threshold for filing CTRs and changing the filing requirements for Suspicious Activity Reports (SARs) have on OCC, OTS and FinCEN's workloads?

Results Act Related Work: The audit would also examine FinCEN's compliance with one performance measure: percentage reduction to the reporting burden by banks results from elimination or reformulation of unnecessarily burdensome information collection rules and compliance requirements.

Issue Area: Maintaining a Sound National Banking System

Contact Person: Benny Lee, Director of Audit, (415) 977-8810

Title: OTS Examination of Bank Secrecy Act (BSA) Reporting

Background: This audit is part of a series of planned OIG BSA related audits relative to bank regulators oversight of supervised institutions, the first covered OCC BSA domestic exams, the second foreign branches supervised by OCC, and a planned third covering national bank trust departments. This would be the first audit covering OTS. Prior OIG reports include: "Office of the Comptroller of the Currency's Responsibility under the Bank Secrecy Act," report number OIG-90-004, October 25, 1989; "Audit Report on Treasury's Implementation of the Bank Secrecy Act," OIG 91-013, December 11, 1990, which included the OCC in addition to other Treasury bureaus. One of Treasury's January 1997 stated goals for the next four years is to strengthen efforts to fight financial crimes to support broader anti-crime activities. This audit follows GAO's December 1998 investigative report and Treasury's widely publicized undercover operation Casablanca, Treasury's largest money laundering case. Treasury also put forth a National Money laundering strategy in June 1999 that included the federal banking regulator's continued role in the area.

Audit Objectives/Key Questions: Are OTS BSA examinations effectively determining whether thrifts are complying with the Bank Secrecy Act (BSA)? Are thrifts properly applying the new currency transaction reporting exemption procedures and reporting of suspicious transactions (SARs)? Is OTS effectively using available information from other regulators (e.g., FRB), law enforcement agencies (e.g., the Financial Crimes Enforcement Network) and Customs? Are required federal reporting systems from other agencies such as CTRs, SARs and CMIRs used? Is OTS effectively using Civil Monetary Penalty (CMP) referrals to enforce money-laundering laws?

Title: OCC Examination of Appraisals of Real Estate Pledged as Collateral on National Bank Loans

Background: The economy is currently robust and bank earnings are stable and, in some cases, at record levels. However, history has taught the banking industry that economic conditions can deteriorate quickly without notice or reason. Recent reports in banking publications indicate some banks are not using qualified appraisers or accepted appraisal methods to determine the value of the real estate securing their loans. Failure to accurately value your collateral at time of loan origination and through the life of the loan violates prudent underwriting and credit administration standards. If such practices are common, the collateral securing those real estate loans may be over-valued and bank management could face losses if forced to rely on collateral for repayment of their loans. At yearend 1998, national banks reported nearly \$765 billion of loans secured by real estate. Nearly 75 percent of the real estate secured loans involved 1 - 4 family residential mortgages, commercial real estate loans and construction real estate loans. About 70 percent were owned by large banks with over \$10 billion in assets. About 2.3 percent of the real estate secured loans were past due. Less than one percent were severely past due (90 days or more) or in non-interest earning status(non-accrual). This level of non-performing loans is well within the industry limits and did not pose unmanageable risk to the institutions. However, should economic conditions deteriorate borrower repayment capacity, bank management may have to revert to the real estate collateral to protect the bank from losses on default.

Audit Objective/Key Question: Is the fair market value of real estate pledged to national banks as collateral on loans being accurately and reliably determined by qualified appraisers using appropriate appraisal methods?

Issue Area: Maintaining a Sound National Banking System

Contact Person: Benny Lee, Director of Audit, (415) 977-8810

Title: OCC and OTS Year 2000 (Y2K) Supervisory Program (Carryover from FY 1999)

Background: The inability of many computerized systems to distinguish the year 1900 from the year 2000 poses substantial risks to all financial institutions. The institutions, their service providers, vendors and the industry regulators need to address these risks. Over the past year, most financial institutions, providers, etc. appear to have expended a significant level of effort in addressing Y2K compliance. However, two extremely critical stages in achieving Y2K compliance are approaching: testing and contingency planning. Testing is needed to make sure systems and devices will function properly after corrections have been made, and contingency planning is necessary should actions not address or actually correct Y2K problems. Monitoring and evaluating the testing process at various institutions entails the expenditure of significant regulatory resources. Limited resources dictate the careful management of these resources to effectively assess and promote institution progress toward Y2K compliance. However, should financial institutions be unable or unwilling to become compliant or should other disruptions appear likely, the regulators must have plans for addressing these situations. This audit reflects two ongoing carryover audits—one covering OTS, the other OCC—, which were started in June 1999.

Audit Objectives/Key Questions: Do the regulators have effective examination oversight and quality assurance processes in place? What is the impact of conducting Y2K examinations on the regulators' other supervisory activities? What impact do the results of Y2K examinations have on the regulators' safety and soundness monitoring activities? Have the regulators adequately informed interested parties, such as the Congress, the Department, the FDIC, etc. as to the state of the industry? What is being done to minimize consumer concern relative to Y2K? Have the regulators developed adequate contingency plans in the event of significant bank failure, consumer concern, or other disruption in the banking industry?

Title: OCC Implementation of the CRA Regulations for Large Banks

Background: The Community Reinvestment Act (CRA) of 1977 requires that regulated banks serve the needs of their communities, especially low and moderate-income areas, by establishing facilities and offering credit products equitably distributed to individuals and businesses. OCC performs compliance examinations at least every other year on large banks with assets over \$250 million and holding companies with total bank and thrift assets of \$1 billion or more to make sure banks are following the intent of the law.

Audit Objectives/Key Questions: Does OCC's supervisory strategy appropriately use data reported and collected prior to on-site examinations to completely and accurately assess the banks' performance? Are bank examination procedures being used properly by the examiners to evaluate the banks' CRA performance while minimizing the regulatory costs?

Issue Area: Maintaining a Sound National Banking System

Contact Person: Benny Lee, Director of Audit, (415) 977-8810

Title: OCC Oversight of Banks Selling Insurance (Carryover from FY 1999)

Background: Financial reform allowing banks to engage in securities and insurance underwriting continues to be an important issue before Congress and to Treasury. Under the National Bank Act's Small Town Rule, OCC has allowed banks to sell insurance to towns with fewer than 5,000 people. However, bank examiners must coordinate examinations with State insurance regulators. Opponents to allowing banks to sell insurance continue to say that this loophole has afforded banks a means to skirt regulatory controls and that supervision over this activity is inadequate. Some in Congress and in the industry think that this increases the risk to banks, rather than improving their competitiveness. Regardless of the policy direction taken, policy makers will need to be aware of OCC's supervisory capacity.

Audit Objectives/Key Questions: Does OCC's supervisory approach provide adequate coverage for both safety and soundness and consumer protection objectives? Are examinations uniformly completed on both an inter- and an intrastate basis? Has OCC effectively coordinated its oversight with the respective State insurance regulators?

Title: OCC's Bank Secrecy Act/Laundering Examinations of Foreign Bank Operations (Carryover from FY 1999)

Background: According to the Bank Secrecy Act (BSA), bank examiners are required to look at suspicious conduct and transactions, the use of wire transfers for illegal activities and the type of businesses, transactions and geographic locations which indicate potential criminal activity. Foreign branches are subject to the U.S. banking laws and are examined according to BSA requirements. Recently the U.S. made several money laundering charges related to drug smuggling by more than 130 defendants including Mexican banks that had U.S. operations. Another money laundering case involved a U.S. bank and its Chilean customers. These cases raise questions on the type of anti-money laundering procedures banks have and the "Know Your Customer" policy established to ensure that banks are aware of the credibility of their customers.

Audit Objectives/Key Questions: Should OCC establish examination procedures specifically for foreign bank branches? How is OCC focusing on transactions involving high-risk countries, activities and businesses as well as the "Know Your Customer" policy in its anti-money laundering efforts? How are OCC's task forces and fraud specialists identifying foreign bank issues and implementing appropriate supervision in examination policy and procedures?

PROCUREMENT

Issue Area: Procurement of Goods and Services

Contact Person: Tom Byrnes, Director of Audit, (202) 283-1064

Title: Mint Procurement Operations

Background: The United States Mint purchases almost \$730 million of goods and services annually. Although 78% of this amount (about \$563 million) is for coin production, the remaining 22%, or \$166 million is for goods and services that range from ADP hardware and software to furniture custodial services. Under Public Law 104-52, dated November 19, 1995, a Public Enterprise Fund was established. This legislation also exempted the Mint from the provisions of law and regulation governing Government procurements and public contracts. Thus, the Bureau has a waiver from following the provisions of the Federal Acquisition Regulation (FAR). Since the United States Mint has received a waiver from following the provisions of the FAR, (almost 4 years ago) no audit work has been done. An audit to determine whether internal controls exist, and practices do allow for the most economical purchase of items, would be beneficial.

Audit Objective/Key Questions: Is the United States Mint timely purchasing quality and acceptable goods and services at the most economical and efficient cost to the Government?

Results Act Related Work: The audit would also examine related performance measures under the Results Act.

MANUFACTURING

Issue Area: Manufacturing and Distribution of Coins

Contact Person: Barry Savill, Director of Audit, (202) 283-0151

Title: Mint One-Dollar Coin Production

Background: The new \$1 coin is a high-profile product that requires a significant effort on the part of the Mint to produce and maintain cost efficiency. Although, the design for the new coin was unveiled at the White House on May 4, 1999, full-scale production of the coins has yet to begin. Officials said they are still testing metals that will be used in the coin. Producing a new coin is a major undertaking and requires a coordinated effort within the Mint. The Mint has to select and purchase materials, retool its production equipment, perform prototype testing, and ultimately go into full-scale production to develop an inventory to meet customer demand.

At a March 1998 hearing before the Subcommittee on Appropriations, House Committee on Appropriations, the Mint's Director indicated that the new coin could face some delays that would result in not meeting the January 1, 2000 date for production. At the February 1999 Subcommittee hearing, the Mint Director anticipated that the new \$1 coin will be ready for release in early 2000. However, the Mint has not yet selected all the materials to use for the coin. Further, coin demand predictions have been somewhat inaccurate in the past. The Mint experienced increasing coin demand during the 3-year period FYs 1994-1996 and continued to believe demand would remain high. However, the Mint saw an unexpected sharp decline in coin demand during FY 1997, in part because of increasing re-circulation of coins through *Coin Star* machines. The Mint has predicted that its supply of SBAs will be enough to meet demand until the new \$1 coin is ready. However, the Mint's prediction for SBA demand was understated, and if the new \$1 coin production is delayed, the Mint could find itself unable to provide customers with the new dollar coins that should be more widely used by the American public.

Audit Objectives/Key Questions: Will the Mint be ready to produce the new \$1 coins by the second quarter FY 2000? Are the demands for the \$1 coins adequately determined?

Results Act Related Work: The audit would also examine the Mint's success in achieving two performance measures: (1) producing coins and maintaining inventories at sufficient levels to meet Federal Reserve Bank requirements; and (2) reducing the average cost of circulating coinage.

PUBLIC DEBT

Issue Area: Financing the Public Debt

Contact Person: Maria Carmona, Acting Director of Audit, (202) 283-1591

Title: BPD Special Purposes Security Program

Background: The Division of Special Investments (DSI) is responsible for State and Local Government Series (SLGS) Securities (time deposit, demand deposit and special zeros). In Fiscal Year 1992, SLGS operations were relocated from Washington, DC to Parkersburg, WV. Subscriptions for SLGS were received and processed at 12 Federal Reserve Bank sites. Early in 1994 all processing of SLGS Securities was centralized in DSI. The SLGS operation has not been audited in its new configuration. The Special Purpose Securities System (SPSS) will be implemented during September 1999. SPSS will be a client server system designed to establish, maintain pay and report on SLGS and other special purpose securities. SPSS will improve transaction-processing efficiency, customer service to investors, management information, and controls over personnel and system resources. It also will provide operational flexibility.

Audit Objectives/Key Questions: Does the BPD accurately account for the purchase and redemption of State and Local Government Series (SLGS) Securities? Does the automated system for SLGS help improve quality service to investors?

Results Act Related Work: The audit will examine BPD's performance goal: to provide quality service to investors in Treasury marketable securities. We will examine BPD's compliance with two performance measures: (1) processing 100% of Government Securities Investment Program transactions timely; and (2) processing 99.9% of Government Securities Investment Program transactions accurately.

Title: BPD Improving Service to Investors (Carryover from FY 1999)

Background: BPD has taken steps to improve the quality of service available to its investors. For example, during 1996 BPD introduced the option of allowing investors of *Treasury Direct* securities to pay electronically, rather than by check. BPD believes this not only improved service, but also reduced the processing costs at service sites..

Audit Objectives/Key Questions: Have the BPD's efforts to improve quality service to investors been successful? Have the options that have been made available through *Treasury Direct* and other methods achieved the goals of improving customer service and reducing processing costs?

Results Act Related Work: The audit will consider BPD's goal of providing quality service to investors in Treasury marketable securities.

INTERNATIONAL

Issue Area: International Policies and Programs (Departmental Offices)

Contact Person: Barry Savill, Director of Audit, (202) 283-0151

Title: DO Office of Foreign Assets Control Rules for Financial Transactions

Background: In 1997 the Department of the Treasury's Office of Foreign Assets Control (OFAC) collected \$1.7 million from violations imposed on corporations and persons for failing to meet its requirements. OFAC requires that financial institutions as well as other firms check all of their transactions against a list of Specially Designated Nationals and Blocked Persons list to determine if any transfers, money orders or direct deposit transactions should be blocked and reported to OFAC. This is in an effort to ensure that these designated individuals do not benefit from holding assets in banks or other institutions in the United States.

The banks are required to monitor all types of money related transactions to ensure that matches are being made between the parties in the transactions and those which are identified as illegal by OFAC. The institutions are required to immediately block the transactions and report them to OFAC within 10 days. Those institutions that do not have the proper compliance programs in place to comply with OFAC rules are subject to fines and penalties. OFAC can impose up to \$1 million and 12 years in jail, civil penalties up to \$250,000 per incident, as well as the forfeiture of funds or other property on those firms that allow improper transactions to be processed.

Audit Objectives/Key Questions: How is OFAC providing adequate guidance to U. S. firms to ensure that rules are clearly communicated and understood? Has OFAC established proper procedures for updating and distributing the Specially Designated Nationals and Blocked Persons list and for providing feedback to the firms which are maintaining compliance programs? Has OFAC implemented an effective system for identifying violators and imposing necessary fines and penalties on the firms?

Issue Area: International Policies and Programs (Departmental Offices)

Contact Person: Barry Savill, Director of Audit, (202) 283-0151

Title: DO OASIA Implementation of Technical Assistance For Eastern Europe And The Former Soviet Union

Background: On November 28, 1989, Congress enacted the SEED Act, Public Law 101-179, to support the political and economic changes in certain former communist bloc nations as they moved towards multi-party political systems.

In 1992, Congress passed the Freedom Support Act (FSA), which made nations formally part of the Soviet Union eligible for similar assistance. Since 1994, Treasury has received over \$106 million in funds under both the SEED and the FSA programs. The economic and financial technical assistance program, which evolved in Treasury, is based primarily on these two statutes. Specific SEED-funding authority is to be phased out by the end of fiscal year 1998 and the specific Freedom Support Act funding authority is to be phased out by the end of fiscal year 2001. Treasury, the State Department, and the Agency for International Development (AID) collaborate to provide technical assistance in the Central and Eastern Europe (CEE) and Former Soviet Union FSU countries. These three agencies must identify, plan, program, and administer technical assistance projects in the same selected CEE and FSU host countries. The agencies' objectives include cooperation to establish free markets, free governments, greater prosperity, and responsiveness to pressing humanitarian needs in host countries.

With the fall of the Soviet Union and communist bloc nations across Eastern Europe, the Office of Technical Assistance, a Treasury component, was created to provide emerging countries with economic and financial technical assistance as they began to build their infrastructures. The mission of the Office of Technical Assistance is to provide technical advice to foreign countries that request the Department's assistance. The majority of advisors in the Office of Technical Assistance is not civil service government employees, but is personal services contractors who have specific expertise applicable to one of the above five areas in which Treasury technical assistance is provided. The economic assistance to CEE and FSU countries is a highly visible and extremely important program. Advisors under this program have substantially facilitated and influenced the shift of foreign financial systems to a free-market economic model. It is important for Treasury to ensure that the program is working effectively and efficiently.

Audit Objectives/Key Questions: Does the Office of Technical Assistance have adequate policies and procedures in place governing the implementation of the SEED program? Are program results monitored to determine whether the program is effective and meeting its stated objectives? Are performance measures in place to measure the effectiveness of Treasury's implementation of the SEED Act and the FSA? Are internal controls over funds adequate to ensure that funds are properly accounted for and that expenditures are consistent with agreed upon purposes? How much oversight does the Department provide regarding implementation of the SEED Act? Has the Office of Technical Assistance effectively addressed recommendations and suggestions previously identified by the Department's Office of Organizational Improvement and the OIG?

Results Act Related Work: The audit would also examine OASIA's success in achieving its performance goal: Promoting the implementation of sound economic policies in developing and emerging market economies.

EXECUTIVE DIRECTION AND DEPARTMENTAL MANAGEMENT

Issue Area: Direction and Management (Departmental Offices)

Contact Person: Barry Savill, Director of Audit, (202) 283-0151

Title: DO Departmental Audit Recommendation Tracking and Follow-up System

Background: The OIG reviewed Treasury's Audit Follow-up System in 1996 and 1997, in part to address Congressional concerns about unimplemented recommendations. An evaluation report (OIG-96-E18, June 1997) highlighted problems with the follow-up process and the Department's Inventory Tracking and Closure System (ITCS). Recent attempts to reconcile Departmental and OIG recommendations tracking data indicates ongoing difficulties with both the OIG follow-up audit process and the reliability of ITCS data. Ultimately, the effectiveness of all OIG audits and evaluations depends on sufficiently implementing our reported recommendations.

Evaluation Objectives/Key Questions: Have the Department and bureaus taken all necessary steps to implement effectively the OIG-96-E18 recommendations? Has the OIG taken all necessary steps to implement effectively the OIG-96-E18 recommendations? What must be done to ensure the completeness and reliability of ITCS data? Are sufficient controls in place in Departmental Offices, the bureaus and the OIG to prevent inappropriate closing of open audit recommendations? Are Departmental, bureau and OIG managers accounting properly for unresolved or disputed recommendations reported semiannually to Congress?

Results Act Related Work: The evaluation would also examine the Department's and the OIG's success in implementing audit recommendations related to performance measures and other aspects of the Results Act.

Title: Treasury Background Investigations

Background: Title 5 of the U.S. Code, sections 3301 and 7301, authorizes the President to establish standards for admission and conduct of Federal employees. Executive Orders 10450, *Security Requirements for Government Employment*, and 12356, *National Security Information*, establish uniform requirements for personnel security programs in the Federal government. Treasury law enforcement bureaus, generally responsible for their own personnel security programs, perform background investigations of their own employees. Most of the other Treasury bureaus and offices obtain background investigations of their own employees through OPM. Because background investigations are conducted by various methods, there may be inconsistencies, inefficiencies, and duplication of effort by the bureaus.

Evaluation Objectives/Key Questions: Are background investigation policies and procedures consistently and uniformly applied throughout Treasury and its bureaus? Are the appropriate types of investigations requested based on the level of authorization required? Is there unnecessary investigation effort when employees transfer between Treasury bureaus, work on temporary duty in another office or bureau, or transfer into Treasury from other Federal agencies? Can background investigations be made more cost effective without sacrificing quality and timeliness? Are background investigations timely? Has the current background investigation process adversely impacted Treasury?

The Evaluations/GPRA Group will perform this work as an assessment rather than an audit; however, the report will include recommendations instead of suggestions. For additional information, contact Barry Savill.

Issue Area: Direction and Management (Federal Law Enforcement Training Center)

Contact Person: Charles Mataya, Audit Director, (713) 706-4613

Title: Federal Law Enforcement Training Center (FLETC) Prohibited Personnel Practices

Background: FLETC, a bureau of the Department of the Treasury with a Director who serves under the general direction of the Secretary of the Treasury and under the immediate supervision of the Under Secretary (Enforcement), is headquartered in Glynco, Georgia. FLETC has a satellite training center in the southwestern United States, located in Artesia, New Mexico, and an office in Washington, DC. FLETC graduates about 25,000 students annually. To carry out its training mission, FLETC employs approximately 470 direct hire employees, 21 reimbursable permanent employees and 96 detailed employees from other agencies. It provides facilities for approximately 600 employees from on-site participating organizations and has approximately 700 contract employees.

FLETC was involved recently in a series of highly publicized employee prohibited personnel practices cases. The range of cases were sexual harassment by senior managers, race discrimination and a reported physical altercation between two senior managers. These cases, reported in several media outlets, were an embarrassment to the Department and required large settlement sums to personnel affected by the harassment and discrimination. Several senior managers have left FLETC as a direct result of these actions.

Audit Objective/Key Question: Is FLETC management using the latest programs and initiatives to provide employees with the necessary knowledge that will make them more sensitive to personnel discrimination and harassment?

APPENDIX A

ADDITIONAL AUDITS UNDER CONSIDERATION FOR FUTURE WORK– URGENT AND IMPORTANT⁴

INFORMATION TECHNOLOGY

Title: Treasury Telecommunication Systems Security ✓

Background: Telecommunications, whether by voice or data, operates in a specialized computer environment. The computing environment is increasingly changing from a mainframe centralized environment to a more distributed environment with the advent of local area networks (LANs) and wide area networks (WANS). The distributed environment creates a host new security threats and vulnerabilities. Recently, hackers have targeted the Federal Government and successfully gained access through channels such as the Internet and altered information on Federal systems. In order to maintain the confidentiality and integrity of the information transmitted over Treasury telecommunications system, proper security policies must be established, implemented, and systems monitored at both the Departmental level and at the bureaus. The same six general control domains discussed in the Federal Information Systems Control Audit Manual are applicable in a telecommunications environment. These domains are Entity-wide Security Program Planning and Management, access controls, change controls, system software, segregation of duties and service continuity.

Audit Objectives/Key Questions: Is the information transmitted on Treasury telecommunications systems secure from alteration and interruption caused by malicious attacks such as denial of service? Is the confidentiality of information transmitted on Treasury telecommunications systems maintained and secure from unauthorized access through the use of encryption or another method? Are the telecommunications systems monitored in order to detect attempts to gain access by hackers or others, and are security incidences investigated?

Title: Treasury Local Area Network Security ✓

Background: The distributed computing environment has resulted in the increased importance of local area networks in accomplishing mission related computer based applications. In general, the LAN environment is less secure than the mainframe environment because controls are normally not as frequently implemented. A primary security concern is to ensure that access to and use of Local Area Networks (LAN) resources is available, appropriate, and authorized. Access and security risks will be affected by the applications used on a LAN. The same six general control domains discussed in the Federal Information Systems Control Audit Manual are applicable in a LAN environment. These domains are Entity-wide Security Program Planning and Management, access controls, application software development and change controls, system software, segregation of duties and service continuity.

Audit Objectives/Key Questions: Are the general control environments of the LANs adequate, based on the applications being run in those environments?

⁴ Jobs shown as “urgent and important” are jobs that should be done in FY 2000 but likely cannot be done because all of our resources are assigned. In other words, these are jobs we would do now if we had additional staff.

**ADDITIONAL AUDITS UNDER CONSIDERATION
FOR FUTURE WORK– URGENT AND IMPORTANT**

INFORMATION TECHNOLOGY – Continued

Title: Treasury Excessed Computer Equipment Security ✓

Background: With the new millennium approaching, information technology equipment that is not Year 2000 compliant is being replaced. Most likely, these machines are being excessed for reuse or disposal (possibly donated to an educational facility or purchased by a private citizen for home use or scrap). Thus, to ensure that classified and/or highly sensitive information is not still resident on hard drives, the department will need to establish guidance for the excessing of computer equipment and have reliance that bureau's are complying with this guidance. If this is not done, the department is running the risk that a non-authorized departmental employee or private citizen will possess classified and/or highly sensitive information, as well as software specifically licensed to Treasury (licensing agreement violation).

Audit Objectives/Key Questions: Does departmental guidance exist for the preparation of computer equipment to be excessed for reuse and disposal? Are bureaus excessing equipment according to departmental guidance?

ADDITIONAL AUDITS UNDER CONSIDERATION FOR FUTURE WORK— URGENT AND IMPORTANT

REVENUE COLLECTION

Title: ATF Floor Stocks Tax ✓

Background: A Floor Stocks Tax (FST) is a tax levied on certain commodities in a business' inventory undergoing an excise tax increase. The FST is equal to the difference between the old and the new excise tax rates. The purpose of an FST is to prevent businesses from accumulating inventory before the tax increase and creating a windfall profit. Under the Taxpayer Relief Act of 1997, ATF will collect an estimated \$2.5 to \$3 billion per year in additional revenue by 2002. This will be derived from tobacco product taxes at the higher rates. This new law requires two floor stock tax increases effective January 1, 2000 and January 1, 2002, and it applies to tobacco products removed after December 31, 1999 and December 31, 2001, respectively. ATF estimates that the FST for tobacco will generate \$200 million in additional revenue. In September of 1993, the OIG's Central Region issued a report on ATF's FST Program. The auditors found that ATF did not timely assess penalties and interest on returns filed and paid late. ATF also did not follow up adequately or timely with taxpayers that did not file a return or when discrepancies occurred in inventories between what ATF inspected and taxpayers reported on their FST returns. During this review, we need to ensure the prior weaknesses are not repeated during implementation of these new floor tax requirements. This audit will result in recommendations that will assist ATF in fully collecting the FST and in improving its effectiveness in complying with the Tobacco Compliance Law which is part of the Taxpayer Relief Act of 1997.

Audit Objectives/Key Questions: Does ATF have adequate policies and procedures to ensure that businesses pay the correct amount of Floor Stocks Tax in a timely manner?

Title: ATF Section 5010 Tax Credits ✓

Background: According to Section 5010 of Chapter 51 of the Internal Revenue Code, a tax credit is allowed when a producer increases the alcohol content by adding wine or flavors to the distilled spirits. These credits could result in substantial reductions in the revenue collected for distilled spirits products. Producers can use several different ways to calculate the amount of the tax credit, and can involve the application of a complex formula. ATF personnel indicated that the tax returns for the distilled spirit producers often does not identify the amount of the tax credit. Instead a net tax amount is provided which already includes the amount of the credit. Accordingly, they were unable to provide the amount of the tax credit that producers have claimed. Additionally, they mentioned that ATF relies on the inspectors to verify this credit during their revenue inspections. They acknowledged that their expertise in this area may not be as good as it once was given the turnover of employees with alcohol inspection experience.

Audit Objectives/Key Questions: Is ATF ensuring during their alcohol revenue inspections that distilled spirit producers are properly applying wine and flavor tax credits to the amount of taxes owed on their distilled spirit products?

ADDITIONAL AUDITS UNDER CONSIDERATION FOR FUTURE WORK— URGENT AND IMPORTANT

REVENUE COLLECTION - Continued

Title: Customs International Mail Processing ✓

Background: Title 19 - Customs Duties (Part 145 - Mail Importations) of the U.S. Code provides that all mail arriving from outside the Customs territory of the U.S. which is to be delivered within the Customs territory (including the U.S. Virgin Islands), is subject to Customs examination, with a few exceptions such as diplomatic mail. Dutiable merchandise without declaration or invoice, prohibited merchandise, and merchandise imported contrary to law are subject to seizure and forfeiture. Formal entries are, for the most part, required for mail importations which exceed \$1,250 in value. Customs officers prepare and attach a mail entry for each shipment not exceeding \$1,250, which is delivered by the Postal Service, and return the shipment to the Postal Service for delivery and collection of duty. Informal entries and entry summaries may also be prepared by the Customs Officer depending on delivery arrangements. Selecting parcels to examine for narcotics and contraband is generally done based on selectivity criteria, most of which is local criteria, e.g., violative shippers or addressees, source countries, or products with known high risk factors. Regarding the transportation of international mail, Customs does not control the movement of the mail from the carrier to the mail facility and then to the Customs processing area. Thus, relations with local Postal personnel are important.

Audit Objectives/Key Questions: Does Customs process mail importations in accordance with prescribed procedures and in the most efficient and effective manner?

Title: Customs NAFTA Enforcement ✓

Background: The North American Free Trade Agreement (NAFTA) eliminates tariffs on most goods originating in Canada, Mexico, and the United States over a maximum transition period of fifteen years. NAFTA authorizes the importing country's customs administration to conduct verifications of the exporter or producer to determine whether merchandise qualify as originating as certified by the Certificate of Origin. Verifications are principally conducted by written questionnaire and by verification visits. Verification visits are used to verify that the exporter/producer's goods meet the NAFTA Rules of Origin. If the exporter/producer does not consent to a verification visit then preferential NAFTA tariff treatment may be withdrawn. All three countries impose criminal, civil or administrative penalties for violations of NAFTA. For example, a producer or exporter who falsifies the origin of trade goods or falsely claims NAFTA preferential treatment is subject to penalty actions. The United States government is deprived or revenue whenever merchandise is allowed to be imported duty-free without valid and reliable proof as to its NAFTA eligibility. A determination needs to be made as to whether Customs origin verifications are adequate and have been effective in ensuring compliance with NAFTA point of origin requirements.

Audit Objectives/Key Questions: Has Customs effectively utilized penalty actions to ensure that revenue is not lost due to violations involving NAFTA point of origin verifications?

ADDITIONAL AUDITS UNDER CONSIDERATION FOR FUTURE WORK— URGENT AND IMPORTANT

REVENUE COLLECTION - Continued

Title: Customs Paperless Entries ✓

Background: In 1994, the OIG issued a report on a major initiative at Customs to automate the import processing system. Called the Paperless Entry Program, Customs allowed importers with a history of compliance with Customs laws and regulations to import low risk merchandise without filing the customary paperwork. The OIG report raised concerns about the effectiveness of Customs controls and oversight of this program. Specifically, the OIG concluded that Customs may have underestimated the risks associated with paperless entry processing.

At the time of the OIG report, approximately 30 percent of entries were processed through Cargo Selectivity as paperless entries. The Customs goal at the time was to increase paperless entries in the years to follow. Since the OIG report, Customs has made major changes to its operation. Customs now operates under the concept of an Informed Compliance Strategy. This strategy developed from a wide spectrum of factors that effectively changed the Customs environment. While Paperless Entry may be viewed as an obsolete program at Customs, the control and oversight issues cited in the OIG report still appear relevant.

Audit Objectives/Key Questions: Has Customs taken action to implement the additional controls and oversight the OIG recommended in its report *U.S. Customs Service: Paperless Entry Program Entails Greater Risks Than Perceived* (OIG-94-071; March 31, 1994)?

Title: ATF Controls Over Tax Free Alcohol and Tobacco Products at Customs Bonded Warehouses and Foreign Trade Zones ✓

Background: Alcohol and tobacco suppliers can ship their products tax free to Customs Bonded Warehouses (CBW) and Foreign Trade Zones (FTZ). To qualify for the export tax exclusion, an alcohol or a tobacco supplier must notify ATF by filing: 1) ATF Form 5100.11, Withdrawal of Spirits, Specially Denatured Spirits or Wines for Exportation; 2) ATF Form 1689 (5130.12), Beer for Exportation; or 3) ATF Form 2149/2150 (5200.14), Notice of Removal of Tobacco Products. If the shipments are transferred to a CBW or a FTZ, ATF guidance permits these forms be signed by the CBW or FTZ proprietor. It is considered tax free once the supplier provides ATF with the signed notification forms. Documentation in support of export is either sent to the ATF technical services or retained at the supplier's premises for ATF inspection. Our audit of ATF's controls over tax free spirits exports indicated that ATF inspectors and technical specialists were not monitoring shipments sent to CBWs and FTZs. During our audit, we found that ATF did not even keep a list of the established and authorized CBWs.

Consequently, they were unable to review or verify the names and addresses of the CBW and FTZ on the notification forms to determine the legitimacy of these places. In order for the shipment to be tax free, the notification forms must be sent back to ATF with a signature from the CBW or FTZ proprietor. We could not verify if ATF checked the authenticity of the signature. During our audit, we did limited work to determine if spirits were sent to authorized CBWs and FTZs. Although we found no instance of diversion, we feel ATF do not have adequate controls to ensure that this potential problem could be prevented.

Audit Objectives/Key Questions: Has ATF established adequate policies and procedure to ensure that tax free alcohol and tobacco products destined for CBWs and FTZs are indeed going to these locations and not diverted back into the U.S. economy?

ADDITIONAL AUDITS UNDER CONSIDERATION FOR FUTURE WORK— URGENT AND IMPORTANT

DEBT COLLECTION SERVICES

Title: FMS Form 1099-C Service ✓

Background: A Government agency that cancels a debt of \$600 or more is required to report the forgiven amount as income by filing a Form 1099-C. In Fiscal Year 1999, FMS' Debt Management Service (DMS) offered to provide cross-servicing agencies with the 1099-C service. Agencies that desired this service were required to submit a Letter of Agreement and Agency Profile Form to DMS. Upon notification from the agency, DMS will issue a 1099-C on debt compromised and discharged over \$600 that has a taxpayer identification number. DMS will also provide a detailed listing at the beginning of the following year to allow agencies to review debt eligible for a 1099-C. Once DMS issues a 1099-C, the case will be returned to the agency. It is paramount that the 1099-C process work effectively to ensure that revenue recovery associated with uncollectable debt is maximized.

Audit Objectives/Key Questions: Has FMS implemented regulations to facilitate the 1099-C process and have these requirements been adequately communicated to the program agencies? Does FMS maintain adequate information on program agency debt to ensure that use of the 1099-C process is maximized? For the 1099-Cs issued by FMS, is FMS appropriately updating its records to reflect the delinquent debt as cancelled or forgiven? Does IRS process the 1099-Cs?

Title: FMS' Designation of Debt Collection Centers ✓

Background: The DCIA requires agencies to transfer debts over 180 days delinquent to the Department of Treasury for collection, unless the debts are in specified exempt status. One such exemption is for the program agency to be designated by Treasury as a DCC. There are currently no program agency DCCs. However, the Department of Education has a waiver to collect its student loan debt and Health and Human Services has a waiver to collect some specialized third party debt. For an agency to be authorized as a DCC to "cross-service", i.e., collect debt on behalf of another agency, it must meet certain standards. Also, an agency may be designated as a DCC to work its own debts, but the agency may not want to cross service for other agencies. Treasury will grant a waiver to the transfer provision of the DCIA for debts which are being collected in an agency's own DCC, provided the agency follows certain procedures. At the end of one year, Treasury will review the agency's DCC operations and determine if the continuation of the waiver is warranted. If a continuation is not warranted, the agency's debts become subject to the transfer provision of the DCIA.

Audit Objectives/Key Questions: Does the criteria used by FMS to designate a DCC provide for an objective and consistent decision process? Does the DCC criteria used by FMS incorporate sufficient empirical data to determine the applicant's effectiveness in collecting debt?

ADDITIONAL AUDITS UNDER CONSIDERATION FOR FUTURE WORK— URGENT AND IMPORTANT

DEBT COLLECTION SERVICES - Continued

Title: FMS' Efforts to Ensure Child Support Payments ✓

Background: The failure of some parents to meet their child support obligations threatens the health, education, and well being of their children. Compounding this problem, States have experienced difficulties enforcing child support obligations once a parent has moved to another state.

The *Debt Collection Improvement Act of 1996* authorizes the Secretary of the Treasury to collect past-due child support by offsetting Federal payments. Also, *Executive Order 13019 - Support Families: Collecting Delinquent Child Support Obligations* (September 1996), requires the Secretary of the Treasury to promptly develop and implement procedures necessary for the collection of past-due child support debt by facilitating the collection of delinquent child support obligations from persons entitled or eligible to receive certain Federal payments or assistance. The Secretary is also required to ensure that information concerning individuals whose payments are subject to administrative offset because of delinquent child support obligations is made available to the head of each executive department and agency that provides Federal financial assistance to individuals.

As the central disbursing agency of the Federal government, FMS is responsible for the implementation of the centralized administrative offset for the collection of non-tax delinquent Federal debt, past-due child support, and other State debt. The Office of Child Support Enforcement (OCSE) within Health and Human Services' Administration for Children and Families, assists State government in operating and managing its program effectively and in conformance with Federal requirements. FMS and OCSE formed a partnership to implement the provisions of the Debt Collection Improvement Act of 1996 and Executive Order 13019.

In the last two years, the numbers of states/territories using the Treasury Offset Program (TOP) to collect delinquent child support increased by 525 percent. Currently, 47 states, 2 territories, and Washington, DC participate in the program to facilitate child support payments. As of March 1999, \$46.06 billion was referred to FMS for collection and approximately \$722 million was collected.

Audit Objectives/Key Questions: Does the administrative offset program provide reasonable assurance that delinquent child support payments are recovered and the designated recipient receives the payments? Is the partnership between Health and Human Services (HHS) and the Treasury effective to facilitate recovery of delinquent child support debt?

Title: FMS' Implementation of Administrative Wage Garnishment ✓

Background: As the central disbursing agency of the Federal Government, FMS is responsible for the implementation of the Debt Collection Improvement Act of 1996. Wage garnishment is a process authorized by the Debt Collection Improvement Act of 1996, whereby an employer withholds amounts from an employee's wages and pays those amounts to the employee's creditor in satisfaction of a delinquent debt. A Federal agency collecting delinquent non-tax debt may garnish the wages of a delinquent debtor without first obtaining a court order. The rules and procedures governing administrative wage garnishment were published as a Final Rule in the Federal Register on May 6, 1998. In accordance with the Final Rule, FMS promulgated Standard Form 329 (SF-329) which Federal agencies are required to use to issue administrative wage garnishment orders.

Audit Objectives/Key Questions: Has FMS established procedures to effectively implement debt collection through the administrative wage garnishment program? Are Federal agencies participating in the AWG program?

**ADDITIONAL AUDITS UNDER CONSIDERATION
FOR FUTURE WORK– URGENT AND IMPORTANT****ENFORCEMENT**

Title: Customs' Remote Video Inspections (RVIS) ✓

Background: In late 1998, Customs announced that 24-hour border crossing service would be available at certain small entry ports along the Northern Border. This 24-hour service is made possible through remote video cameras, which capture information on the vehicles and passengers entering the U.S. from Canada. Many of the small isolated ports of entry on the U.S./Canadian Border are near major metropolitan areas in Canada with large international airports such as Vancouver, British Columbia; Calgary, Alberta; and Winnipeg, Manitoba. Small entry ports along the State of Washington are especially vulnerable because the Asian Triads have established Vancouver as their entry port for contraband destined for Seattle, San Francisco, Los Angeles, Denver and other major U.S. cities. Remote video cameras can capture vehicle type, ownership and possibly the appearance of the occupants, but they cannot identify all occupants, or contents in the vehicles. Criminals and contraband could circumvent Customs in Blaine, Washington, by diverting their entry into the U.S. to a smaller entry port with RVIS service.

Audit Objectives/Key Questions: (1) How does Customs identify, manage and control the risks associated with its new RVIS program? (2) How does Customs expect to control/prevent the entry of illegal persons and contraband or monitor/enforce trade compliance through the small isolated ports of entry along the Northern border with RVIS service?

ADDITIONAL AUDITS UNDER CONSIDERATION FOR FUTURE WORK– URGENT AND IMPORTANT

ENFORCEMENT SUPPORT

Title: Treasury Efforts to Detect Money Laundering by Foreign Criminal Organizations in U.S. Financial Institutions ✓

Background: Federal investigators found that from October through March 1999 some \$4.2 billion, in more than 10,000 transactions, passed through one account at the Bank of New York. This activity is believed to be a major money laundering operation by Russian organized crime. An estimated \$10 billion may have flowed through the bank in that account and related ones since early last year. The Bank of New York is a state chartered commercial bank supervised by the Federal Reserve. However, similar activities could occur in financial institutions regulated by Treasury bureaus such as OCC and OTS. FinCEN gathers intelligence on money laundering activities and provides support to anti-money laundering efforts by all levels of government. To effectively address money laundering by foreign criminal organizations in U.S. financial institutions, Treasury not only must coordinate its intra-bureau efforts but it must also work effectively with the Department of Justice and other law enforcement organizations.

Audit Objectives/Key Questions: How effectively does Treasury coordinate its anti-money laundering efforts pertaining to U.S. financial institutions? Are OCC and OTS including sufficient measures in their examination and supervision of institutions to detect situations similar to what has been reported at the Bank of New York? Is FinCEN effectively sharing intelligence data with financial institution regulators and law enforcement officials concerned with money laundering through U.S. financial institutions?

ADDITIONAL AUDITS UNDER CONSIDERATION FOR FUTURE WORK— URGENT AND IMPORTANT

BANKING AND FINANCIAL INSTITUTIONS

Title: OCC Supervision of National Bank Agricultural Lending Activities

Background: The business of agriculture is a high-risk venture fraught with risk. These risks include not only the traditional business risks but also those resulting from the environment, foreign production and competition as well as public policy and intervention. Because of these risks, agricultural lending has traditionally been financed through agencies of the US Department of Agriculture; a network of quasi Government -sponsored institutions chartered under the Farm Credit System or through smaller commercial banks in the rural communities. However, the agricultural industry has evolved from a network of many small family farms engaged in labor intensive operations to a smaller network of large, highly specialized equipment-intensive complex operations, often organized under a corporate structure. As the industry evolved, so did the need for financing the scale of operations needed to be profitable. As a result, many larger commercial banking now hold portfolios of agricultural loans for financing land purchases (farmland loans) and operations (production loans).

According to OCC, nationally chartered banks held over \$32 billion in agricultural loans as of September 30, 1998 representing 1.2 percent of their \$1.9 trillion of gross loans. This agricultural loan portfolio included \$10.6 billion in farmland loans and \$21.2 billion in production loans and was owned equally between smaller community banks with less than \$1 billion of assets and larger banks with over \$1 billion of assets.

The agriculture industry is under considerable stress. The El Nina and La Nina weather phenomena coupled with the collapse of the Asian export markets have reduced production yields and market prices of agriculture products throughout the nation. Reports of potential farm failures and bankruptcies reminiscent of the farm crisis in the 1980s are beginning to surface as these adverse conditions begin to affect the borrowers' production, cash flow and repayment capacity. The smaller community banks are especially vulnerable because agriculture loans represent 8 percent of their total portfolio and are weighted more towards farmland loans. The larger banks are weighted more towards production loans. The ultimate source of repayment for both types of loans is the cash resulting from the operation. Yet, production loans are often more secure because of purchase money interests and lender controls over product sales proceeds. Farmland lending tends to be asset-based lending collateralized by land that can be difficult and costly to foreclose, maintain and dispose of during troubled times. A borrower may decide or have to repay their operating loan first before making payment on their farmland loan, if proceeds are available. As of September 30, 1998, repayment was past due on about 1.2 percent of the smaller community banks' farmland loan portfolio, about a third of which was severely past due by over 90 days. About 1 percent of the farmland loan portfolio was in non accrual status meaning the community banks had converted to investment accounting and were not recognizing any interest income until it had recovered the outstanding principal on those loans. Both the severely past due and nonaccrual loans are near the limits the banking industry generally considers prudent or safe for the product line portfolio. This lost interest income is a direct hit to the bottom line earnings and capital of the banks.

Audit Objectives/Key Questions: Does OCC's examination and supervision processes adequately identify and address the risk in the agricultural lending activities of national banks?

ADDITIONAL AUDITS UNDER CONSIDERATION FOR FUTURE WORK— URGENT AND IMPORTANT

BANKING AND FINANCIAL INSTITUTIONS - Continued

Title: OTS Application Process for Unitary Thrift Charters by Non-Banking Entities

Background: From Jan 1999 through early June 1999, OTS had received an application for a thrift charter from 78 non-banking entities. These applications represented diverse industries such as insurance, security brokers, telecommunications companies, etc. By mid-June 1999, OTS had approved about 38. Of the 554 savings and loan holding companies (SLHC) under OTS supervision, only 71 were engaged in non-banking activities, and only 21 were viewed as engaging in truly commercial activities.

For commercial banks, the separation between commerce and banking is covered by the Bank Holding Act of 1956. For thrifts, congress provided a different mechanism (Home Owners Loan Act pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989) which places limits on the subsidiary savings associations (thrifts) rather than limiting the holding company's activities. Although there have been tremendous changes in the markets, the associated laws and regulations haven't kept pace. Financial markets have not waited and continued to evolve with an increasing convergence of commerce and banking. A notable example was the merger of Citi-corp and Travelers Insurance in 1998. Some attribute this development to the existence of regulatory gaps and legal maneuvering around existing laws. Some point to the laws governing the unitary savings and loan holding company structure as one such gap. All State Insurance's recent approval for a thrift charter in effect represents the convergence of commerce and banking.

At this writing the 106th Congress was in the midst of debating major financial reform (HR10) that includes some form of non-traditionally commercial activities for banks and thrifts. The prospects of HR10 remain uncertain, but it's not likely that OTS can suspend acting on applications for a thrift charter by non-banking entities. Of concern is whether the continued approvals of non-banking applications are unwittingly resulting in a buildup of potential risks that expose not just the thrift industry but all financial markets. Parallels can be drawn to the thrift debacle on the late 1980's when thrift were allowed to accumulate restate related loans and junk bonds before the risks were readily evident.

Audit Objectives/Key Questions: Does OTS adequately take into consideration all relevant factors in granting a thrift charter to non-banking entities such as insurance companies, securities brokerages, and retail stores? Are there additional considerations that aren't provided for under existing decades-old laws and regulations that govern the granting of unitary thrift charters? Are there risks associated with a non-banking entity that aren't readily apparent; are there functional regulatory gaps in either safety & soundness and/or consumer protections that might affect the thrift?

**ADDITIONAL AUDITS UNDER CONSIDERATION
FOR FUTURE WORK– URGENT AND IMPORTANT**

PROCUREMENT

Title: OCC Delegated District Procurement Operations

Background: OCC does not receive appropriated funds. Instead, OCC's operations are funded primarily by annual assessments on national banks. About 12% of OCC annual budget is supplies and related operating support. In June 1999, the OI issued a report of investigation on OCC's contracting and procurement practices in headquarters. The report was critical of OCC's and attributed some findings to OCC's unwillingness to follow the FARs.

Audit Objectives/Key Questions: Are the Comptroller of the Currency's (OCC) policies and procedures for delegated procurements at the District level adequate? Besides compliance issues, are district purchases effective with adequate competition and reasonable pricing

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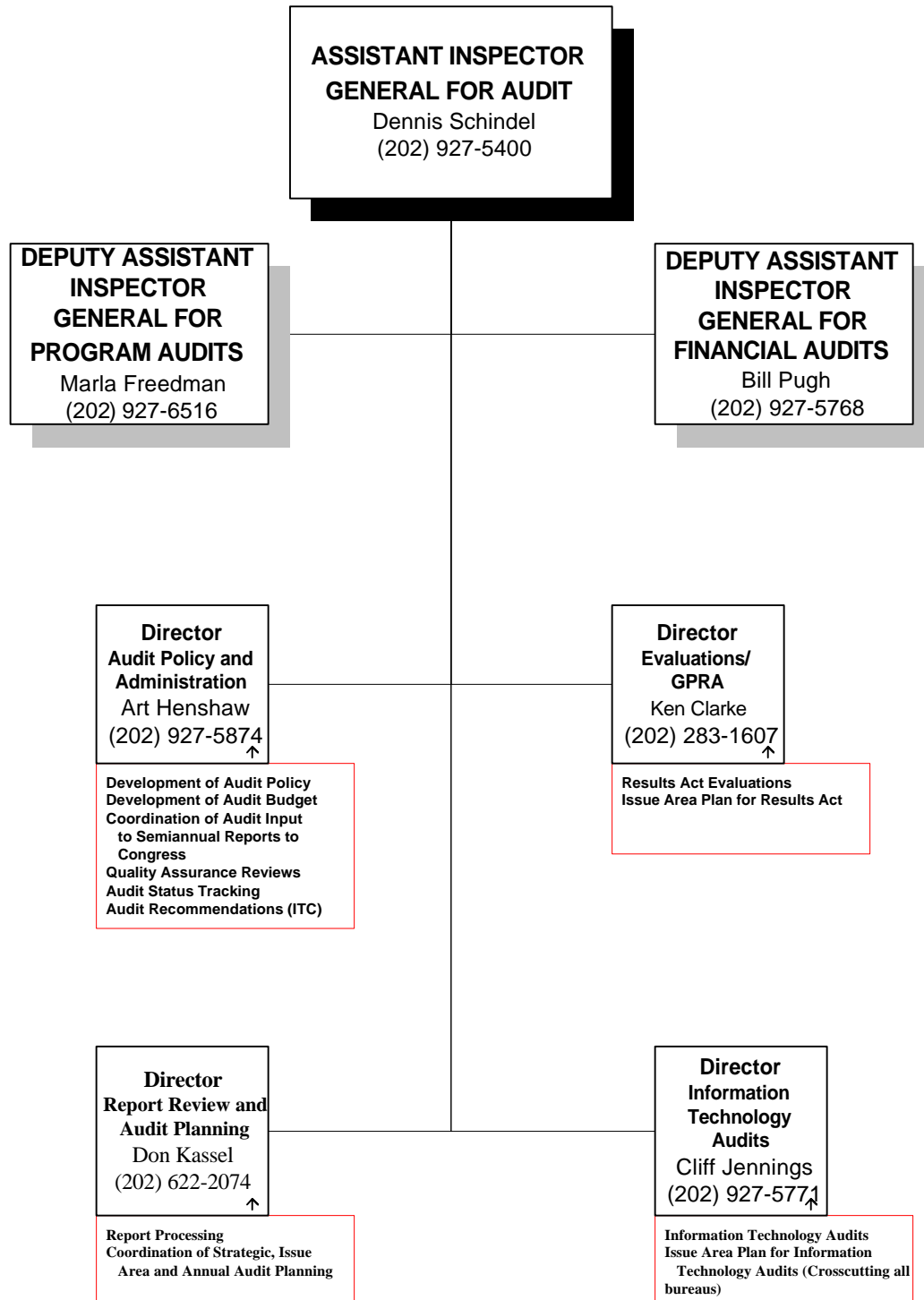
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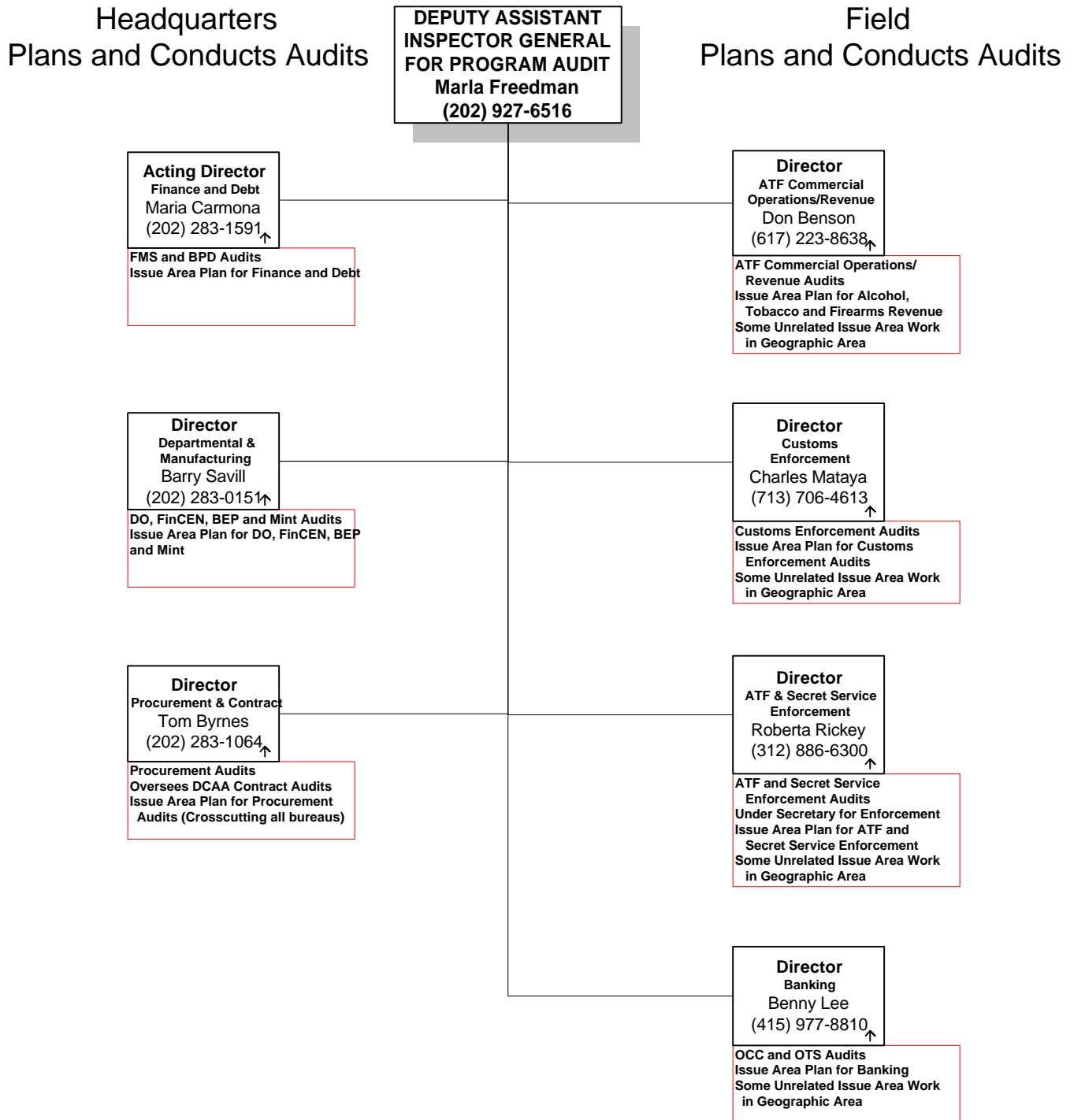
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ASSISTANT INSPECTOR GENERAL FOR AUDIT IMMEDIATE OFFICE



OFFICE OF AUDIT PROGRAM AUDIT STRUCTURE BY ISSUE AREA DIRECTORS



OFFICE OF AUDIT FINANCIAL AUDIT STRUCTURE BY DIRECTORS

